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DIVIDEND NOTICES

LOEW'S INCORPORATED

"THEATRES EVERYWHERE"

March 6, 1942

THE Board of Directors on March 4th, 1942 declared a dividend at the rate of 50c. per share on the outstanding Common Stock of this Company, payable on March 31st, 1942 to stockholders of record at the close of business on March 20th, 1942. Checks will be mailed.

DAVID BERNSTEIN,
Vice President & Treasurer

Beneficial Industrial Loan Corporation

DIVIDEND NOTICE

Dividends have been declared by the Board of Directors, as follows:

PRIOR PREFERENCE STOCK
\$2.50 Dividend Series of 1938

62½c per share

(for quarterly period ending March 31, 1942)

COMMON STOCK
40c per share

Both dividends are payable March 31, 1942 to stockholders of record at close of business March 16, 1942.

E. A. BAILEY

March 2, 1942 Treasurer

THE WESTERN UNION TELEGRAPH CO.

New York, March 10, 1942

DIVIDEND NO. 260

A dividend of 50 cents a share on the capital stock of this company has been declared, payable April 15, 1942, to stockholders of record at the close of business on March 20, 1942.

G. K. HUNTINGTON, Treasurer

UNDERWOOD ELLIOTT FISHER COMPANY

The Board of Directors at a meeting held March 12, 1942, declared a dividend for the first quarter of the year 1942 of 50c a share on the Common Stock of Underwood Elliott Fisher Company, payable March 31, 1942, to stockholders of record at the close of business March 23, 1942.

Transfer books will not be closed.

C. S. DUNCAN, Treasurer

UNITED FRUIT COMPANY

Dividend No. 171

A dividend of one dollar per share on the capital stock of this Company has been declared payable April 15, 1942, to stockholders of record at the close of business March 19, 1942.

LIONEL W. UDELL, Treasurer.



A UNITED NATION

● The nation is united—and Long Distance telephone lines help to tie it together for war's work. . . . You can keep materials moving, wheels turning, men working—if you can reach any one, anywhere in the land, in a hurry. . . . It takes a *lot* of

telephone calls to build fighting planes, freighters or factories—to move men and machines around the map. . . . If the rush of war interferes here and there with the accustomed smoothness of regular Long Distance traffic, we hope you will understand.

SERVICE TO THE NATION

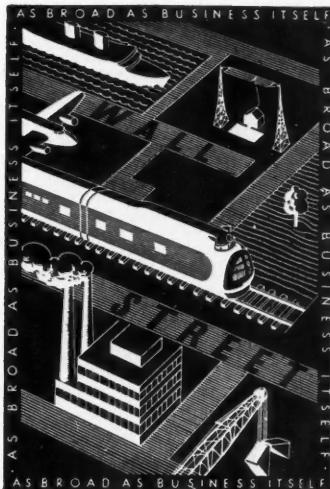


IN PEACE AND IN WAR

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher*

LAURENCE STERN, *Managing Editor*



The Trend of Events

THE PROPOSED TAXES . . . It is improbable that the next Federal tax legislation will carry levies as severe as those asked by the Treasury, for the sentiment in Congress is that this is too big a dose to administer at one time—especially in an election year. Yet, our war needs being what they are, it is virtually certain that we shall eventually have to accept maximum taxes approximating the Treasury's present demands. Thus the choice seems to be merely whether we take the worst in taxes in one gulp this year, or part this year and the rest in a tax bill relatively early in 1943.

So far as personal income taxes are concerned, individuals must be given adequate time to adjust their family budgets. But as regards corporate taxes—especially from the investor's point of view—there is much to be said for establishing maximum levies, fixed for the duration of the war, in one dose this year. That might involve still lower prices for some securities, but it would get the unavoidable adjustment over with. As it is, we have had one to two Federal tax bills in each and every year since the inception of the New Deal, maintaining a chronic tax uncertainty and giving investors no basis for calculations capable of standing up any length of time.

The Morgenthau program was set forth both as a revenue measure and to guard against inflation by "mop-

ping up" a large volume of consumer purchasing power. It would certainly achieve the revenue objective, but it has scant relation to the inflation threat. In volume, and in utilization by the average recipient, there is very little inflation potential in dividend money, the current total of which under existing profit taxes is considerably less than in the fair-to-middling business year 1936. The higher personal income taxes would be imposed exclusively on present taxpayers, the great bulk of this load being carried by the middle classes and the well-to-do—a majority of whom have no increase in income since the war began and a great many of whom are certain to have lower incomes. Whose income has increased over that of the pre-war year 1939? Who has the 10 to 15 billions of dollars of "inflationary purchasing power" that Government statisticians talk about? Mainly industrial wage workers and farmers. Mainly people earning \$2,500 a year or less, but yet considerably more than ever before. A very large proportion of these would pay no income tax.

FREEZING INCENTIVE . . . While it is true, as she repeatedly insists, that Mrs. Eleanor Roosevelt, columnist, speaks as an individual, by a strange coincidence her views often precede official White House opinions. Re-

BUSINESS, FINANCIAL and INVESTMENT COUNSELORS · 1907—"Over Thirty-Four Years of Service"—1942

cently the First Lady in her column advocated drafting everyone and freezing prices, profits and wages. As she put it "No one can be frozen without freezing all."

"Freezing," unfortunately is the right word. Webster defines "freezing" as the "act of turning to ice." When you place a ceiling on wages, psychologists tell us, you likewise place a ceiling on initiative. When you place a ceiling on profits, the danger exists that incentive to make profits will disappear and with it—much of the spirit of free enterprise which has made America what she is.

It is a strange situation. To halt inflation all-out freezing is recommended by economists as the only possible solution. But halting inflation by ham-stringing incentive places a heavy tax on such action.

Mrs. Roosevelt urges that everyone be drafted in the war effort, men and women alike. "Men in the service, and men at home should be drafted and told what is the job we are to do" she writes in *My Day*. Men of military age are already drafted, capital has been drafted ever since war started and industries are in the same category, so there is little new in that proposal. But labor hasn't been drafted, neither for defense industries nor for the farms. If wages are fixed by law for defense industries and farm labor it may "freeze" incentive to some extent, but it will eliminate the present system of picking and choosing war jobs, not from the standpoint of national need, but strictly on a wage scale basis.

If profits are to be frozen along with prices it becomes almost mandatory that wages fall into the same category. Everyone agrees that inflation must be curbed, even Mr. Voter, who doesn't wish his wages to be fixed, nor his income tax to be increased, because it has never been the custom for lower income brackets to shoulder a proportionate share of governmental burdens. But precedents are being smashed every day. This is a world war in every sense of the word. Values have changed overnight and will continue to change even more. Perhaps "freezing," even if it kills or modifies incentive to produce over and beyond the line of duty, may tend to equalize tax burdens and responsibilities. It's a tough problem. One that cannot be solved without offending someone.

THE STEEL SHORTAGE . . . For months the steel industry has been hampered by an inadequate supply of scrap. Unless this problem is solved effectively and soon, steel output this year may be less than in 1941, for new pig iron producing facilities can not be built in time. Since steel goes either into all armaments or into the facilities for making them, inadequate supply would impede the whole war effort and can not be tolerated.

Lord knows how much scrap there is lying around this country, not only in the automobile graveyards but in vacant lots and family cellars and attics—not to mention iron lawn "ornaments" and metal fences that we could readily do without. There has been much talk of the Government getting tough in the matter of junk dealers and motor graveyards. Also much talk of neighborhood scrap collection drives. The fact remains that the scrap problem is still with us. Surely, with proper direction

and energy from Washington, this needless and inexcusable shortage could be made up. As long as there are rusting rails on a single mile of abandoned railroad or as long as a single iron fence is left standing for the trivial purpose of keeping the neighborhood dogs out of somebody's yard, it would be quite fantastic to permit a shortage of scrap to limit our war effort.

FARM LABOR PROBLEM . . . We've been hearing so much lately about shortage of farm labor and what it may mean to the food production problem that it is reassuring to hear the Department of Agriculture state that the scarcity is really a case of maldistribution rather than actual shortage of manpower.

The experts, who have been making a national survey of the situation, have come to the conclusion there are two distinct types of farm labor shortage, the genuine and the spurious. The spurious is the type that follows inability of a farmer to step out of his barn door, scan the horizon, find no hired hand trudging down the road, and reports "can't find a danged soul wanting to work." The genuine shortage exists in communities where labor possibilities have actually been exhausted because of migrations, or other factors.

The farmers are still on the farms. According to actual reports, more farm laborers, both hired and family workers, were on the job at the beginning of this year than on January 1, 1941. There was an increase in hired workers of more than 100,000. That is the nation-wide picture. Local pictures vary. In some instances there have been sharp declines—up to 40 per cent in some areas of Washington, Utah, Arizona, New Mexico, Colorado, Michigan and Wisconsin; while lesser declines were reported in Maine, portions of the Great Lakes States, the middle west and northwest.

RAILROAD REVIVAL . . . The diverse effects of the war activity upon the financial position of our industries is both significant and interesting. For the first time in many years, numerous manufacturing companies have a "cash problem." Inventories, receivables and bills payable are hugely swollen; cash balances in many cases are either down or inadequate to working capital needs. In short, the financial liquidity of a goodly number of industrial companies is undergoing more or less deterioration.

In contrast, the long depressed railroads are making a startling financial comeback. Traffic is at record-breaking levels, especially in the heavy goods which for so many of the post-1929 years were at low figures. Doing a cash business, the carriers have no such inventory or receivables problem as the manufacturers. According to latest available statistics, total cash and cash items of Class I roads had increased to \$1,263,700,000, as compared with \$545,200,000 at the close of 1938 and \$677,500,000 at the end of 1930. And total net working capital was \$979,500,000, as compared with \$188,200,000 at the end of 1938 and with \$423,100,000 at the end of 1930. So far as possible, the railroads are striving to get a permanent benefit from this new found prosperity by utilizing it to reduce their debts, both short term and long term.

As I See It!

BY CHARLES BENEDICT

THE CRISIS AT HAND

THE next few weeks can readily tell us *who* is to win this war.

Japan fired the opening gun when she attacked Manchuria some ten and a half years ago, and quietly laid the foundation for the development of a powerful war machine.

Then Italy turned bellicose, reaching her zenith with the conquest of Ethiopia. Since when she has steadily declined in power.

Next Hitler entered the arena with his daring invasion of the Rhineland on a bluff. Here he made his first test of Allied strength of purpose, and found it weak. Since then he has depleted the resources of conquered Europe to stoke his war machine.

Today Nazi Germany stands at bay in the midst of hostility, ready for another gamble—this time in Africa and Asia. All Hitler has gained up to date is a precarious hold on Europe. Despite all his efforts, the Nazis have badly dented, but not destroyed the power of the British Empire.

And now along comes Japan, and in a few short weeks cashes in on Germany's preliminary work. Germany it seems has merely paved the way for Japanese conquests.

Who indeed will win this war!

It would be interesting to watch the inexorable working of this struggle for power—if we were sitting on the sidelines, instead of being critically involved ourselves.

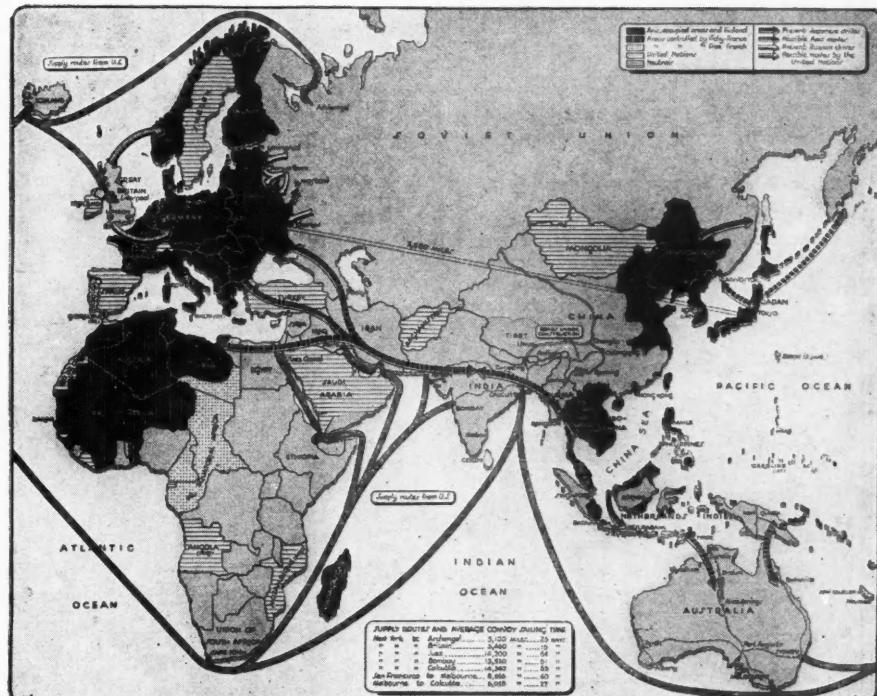
Today Japan is seeing herself as the victor in the Axis camp. She thinks she can knock us out like nine-pins, and is already smacking her lips in contemplation of lording it over London and New York. According to a recent dispatch from Toyko, the Chief of the Navy Press Section said, during cele-

brations for the victories at Rangoon and Java, that "the Japanese Navy would hold a gigantic review off New York, at the same time that General Tomoyuki Yamashita's Army entered London"!

So sure is Japan!—And yet, we know this to be an idle boast, for Hitler was just as vainglorious a short time ago.

It is plain that the Japs are losing their heads, and that each victory stirs their ambitions to greater conquest—even to world conquest—with their poor little Axis partner Germany, in the back of their minds already shunted aside in the same way that the Nazis elbowed-out Italy. Fifth columnists had better take this possibility into consideration when they contemplate the advantages that will accrue to them of a German hegemony in this country!

The thought of such a conclusion to the grandiose Nazi plans is enough to give (*Please turn to page 677*)



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Security Price Trend This Spring

Despite slightly better current tone, the chances are that spring will bring further market test. Security purchases for appreciation should be deferred, while income purchases should be confined to selected bonds and preferred stocks.

BY A. T. MILLER

Summary of the Fortnight: Uneasiness over the prospective course of the war this spring and over the outlook for corporate taxation brought accelerated and general weakness in the market, with less selectivity than in many weeks. Aside from a small sprinkling of equities and preferred issues, only the bond market held on an even keel.

THE recent course of the stock market has further spotlighted the paradox of unprecedented industrial activity and brisk commodity price inflation on the one hand, a gloom-ridden bear market in common stocks on the

other hand. As a result, the ratio of our broad weekly stock index to business activity—and to current corporation earnings—goes on sagging to new lows.

Nor are uneasiness and foreboding confined to this market. Far Eastern events particularly have shaken the former confidence of the London market, which is now well under best recovery levels of last year—although far less depressed than New York.

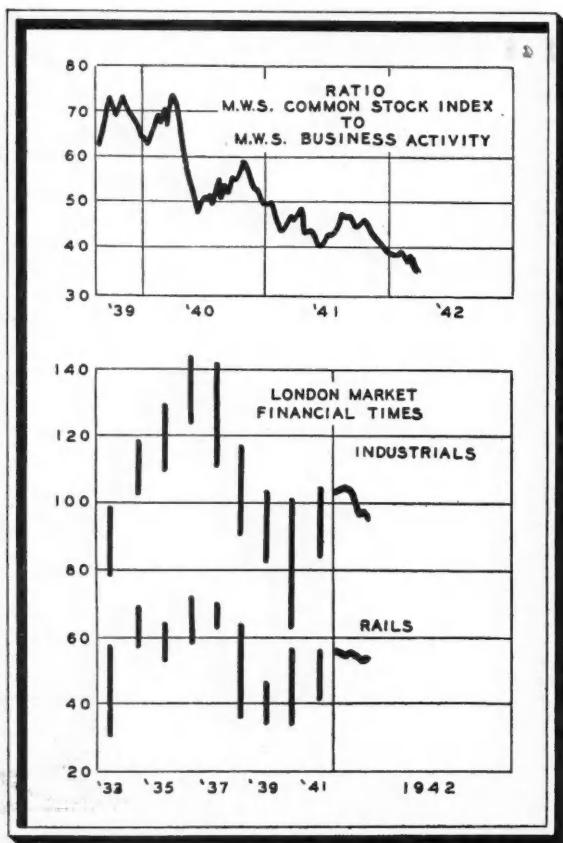
The liquidation of the past fortnight has not been in at all heavy volume. In fact, judged by former concepts of normal market activity, this is an extremely dull market. But it has been repeatedly demonstrated that when buyers are scarce, a light volume of selling—if persistent enough—can work havoc on prices. And buyers are scarce and liquidation has been persistent, especially in many of the stocks which have formerly been considered of highest grade.

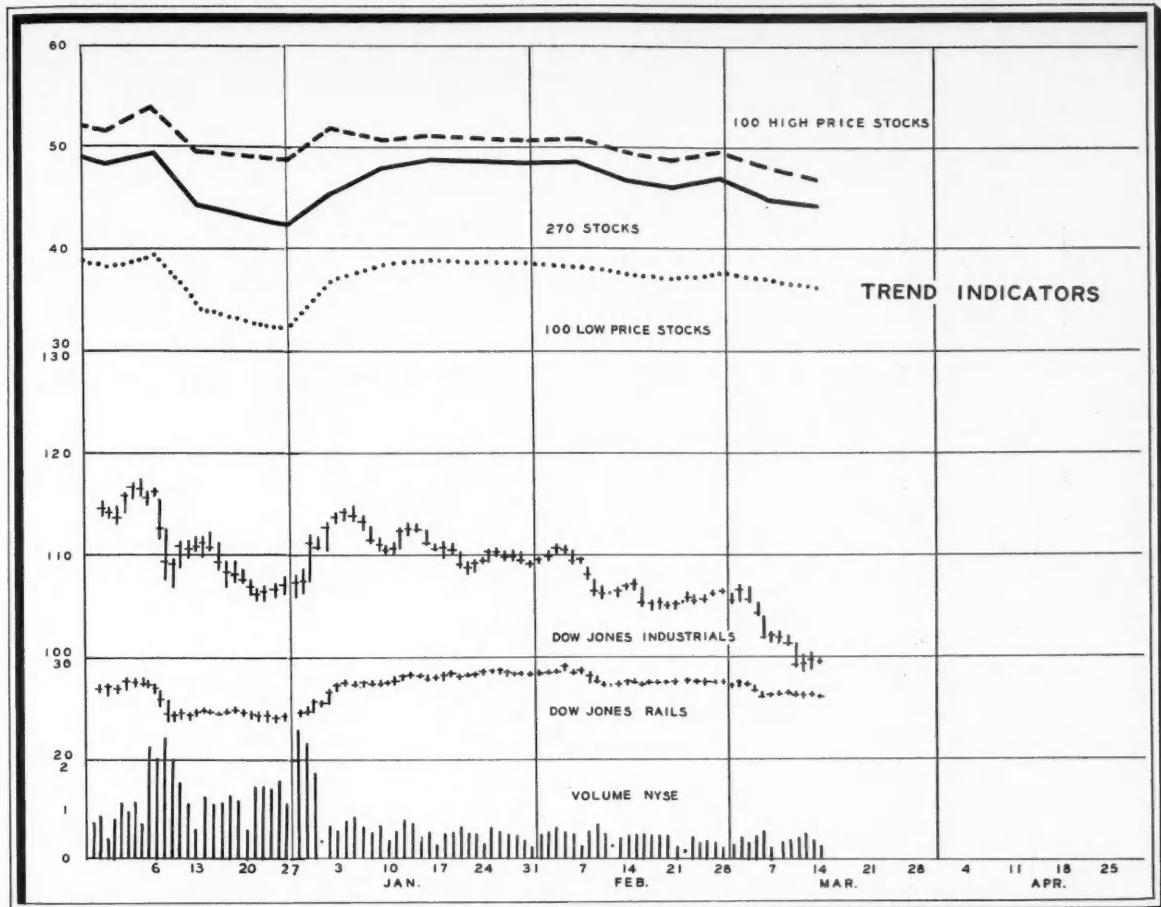
Since our last analysis was written, the Dow industrials have given up more than 7 points more, now standing within a fraction of the 1938 depression low. The rail average over the same period dipped 1.52 points, but still stands 1.75 points above its 1941 low and more than 36 per cent above 1938 low. This average also is still comfortably above low of 22.14 reached in the spring of 1940 on the collapse incident to the German sweep through France. The lowly utilities, defenseless against rising taxes and operating costs, are at the worst level since the average was compiled.

But the retreat is not yet anything like a total rout. Our index of 100 lowest price active stocks, although down 2.56 points over the past fortnight, is still a goodly bit above its December low, which explains why the weekly index of 270 issues is also still above its December low.

The most discouraging aspect of the market situation is the continuing debacle in better grade stocks, most of which are consumer goods issues or "growth" stocks—two types especially vulnerable to higher Federal taxes. In the case of our weekly average of 15 high grade equities, the lowest level of last December now looks like a bull market figure, for the net additional decline from that level now amounts to 14 points and more than 15 per cent. At 76.80 this average has suffered a decline of about one-third for the war period as a whole.

Our representative average of 10 armament equities, however, gave up only 7/10 of a point in the fortnight—





and this display of resistance within 1 point of the virtually double lows of 1940 and December, 1941, may indicate that pretty nearly the worst has been seen by stocks of companies which will at least have the partial offset of tremendous volume against higher taxes.

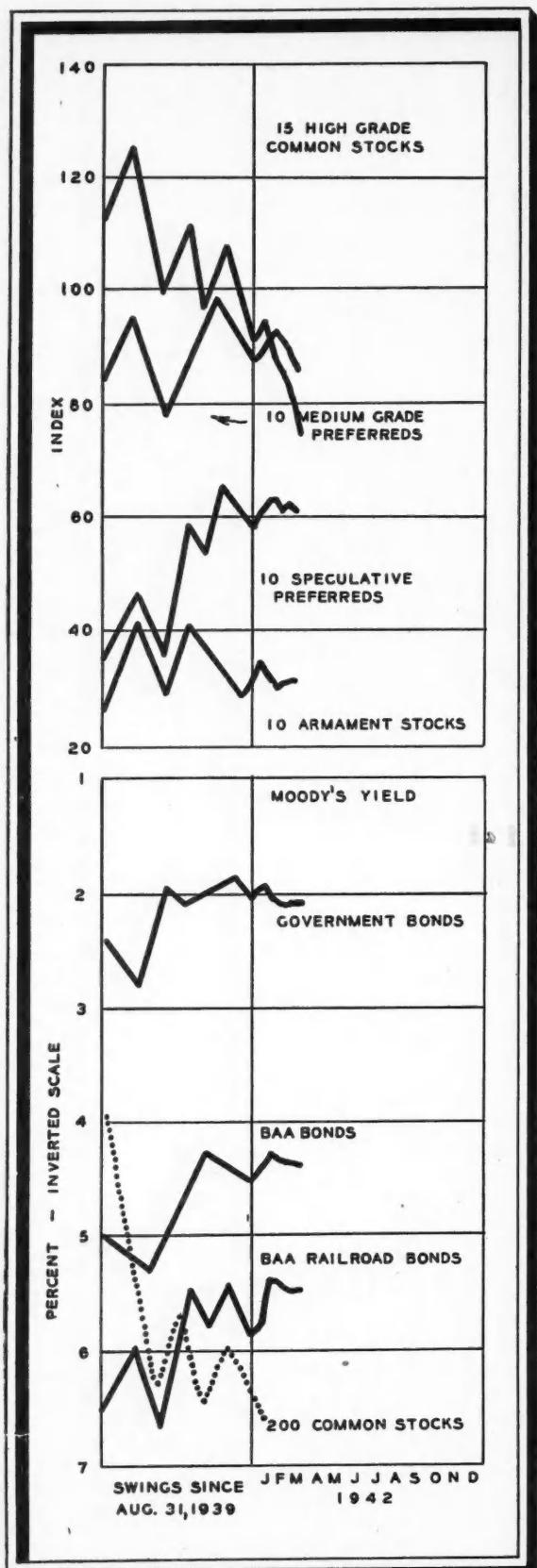
To complete the record, many medium grade preferred stocks—whose dividend coverage would necessarily be reduced in numerous cases if Congress adopts corporate taxes anywhere near as stiff as those demanded by the Treasury—have been on the soft side. As a result, our weekly average of 10 medium grade preferreds is down some 3 points since our last analysis, to the lowest level since the spring of 1940. Our average of 10 speculative preferreds, although down 2.3 points in the fortnight, holds the great bulk of its special war time advantage—being up 81 per cent since the start of the war in September, 1939, showing approximately the same percentage gain from the low of 1940, standing 2.35 points above the low of last December and some 8 points under war period recovery high.

No doubt some of the recent weakness reflected selling by individuals who found it necessary to raise cash for March 15 income tax payment in this manner. With that added pressure out of the way, the market as a whole exhibited increased stability toward the close of last week, with a slight net upturn in the industrial average. This quite modest improvement, amounting to

no more than a cessation of decline, is continuing at this writing and we think it quite possibly may prove to be prelude to a several point rally in the industrial average.

But certainly there is nothing in the technical action as yet to suggest culmination of the underlying downward trend. Important turning points in the great majority of cases since New Deal regulation introduced the modern "thin" market have originated out of a liquidating "blow off" and an over-sold position. Our technical calculations have not indicated such a wind-up. There is thus no springboard for more than relatively minor rally at present—barring sensational good and unexpected news from some quarter. If this be true, the alternatives—probably for some weeks to come—are sidewise drift in the averages or more decline, with the latter trend appearing the more likely at this writing.

We frankly have no conviction as to how much lower this market may go, in terms of the Dow-Jones industrial average. We do have a feeling that for the market as a whole—realistically measured by our weekly index, which reflects some 90 per cent of total transactions—the great bulk of the decline has been seen. Months ago we pointed out that all major lows in this index all the way back to the start of 1934 had been made within the approximate bottom range 44-46. After months of the most persistent pressure, after a series of acutely



depressing war reverses and after announcement of startling severe Treasury tax proposals, this index ended the past week at 44.3 and its lowest December level was 42.6. In short, that 44-46 defensive line, maintained for about eight years, has been moderately dented but not yet violently smashed. Considering the extraordinary power of the assault upon it, the defense has seemed, and still seems, far from hopeless.

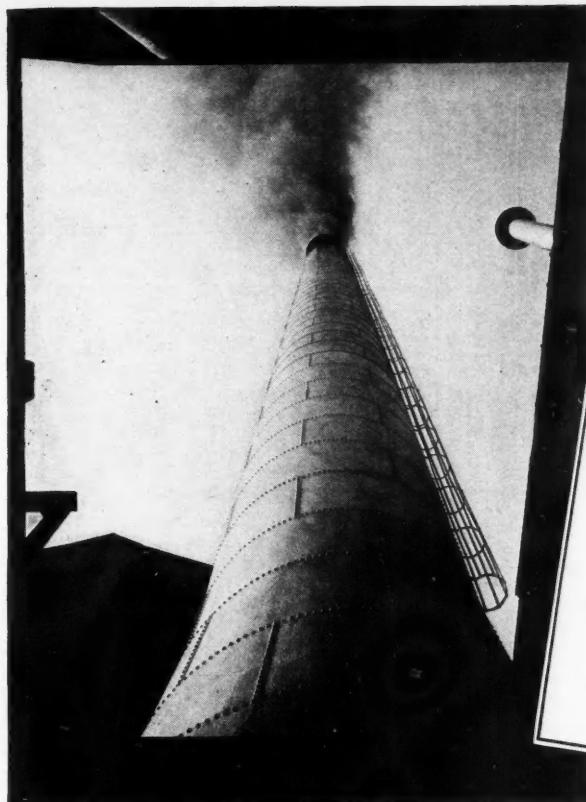
It is hard to conceive of additional news surprises more psychologically disturbing than those dished out so far by the Japanese and by Mr. Morgenthau. To be sure, there is another critical phase of the war on the cards for this spring and summer when the next major German offensive gets under way. The news then may be very bad—and again it may not be as bad as we now fear—but the point here emphasized is that when and if Hitler's Panzers begin to surge forward again the event—unlike the Japanese successes—will be scarcely a startling surprise. Most everybody remains basically bearish on the Red Army—except the Russians.

At worst, therefore, we think there is a good chance the bear market will culminate by late spring or early summer—within a matter, that is, of not so many weeks—and that additional retreat will be stubborn, again speaking in terms of our broad weekly index. If we had to make a guess, we would say that probably at least 85 to 90 per cent of the maximum decline has already been seen. Thus, while we do not advise security purchases for appreciation at present—and would confine purchases for investment income to selected bonds and preferred stocks—we think that in this late stage of market deflation the bears from here on will be playing for relatively narrow odds.

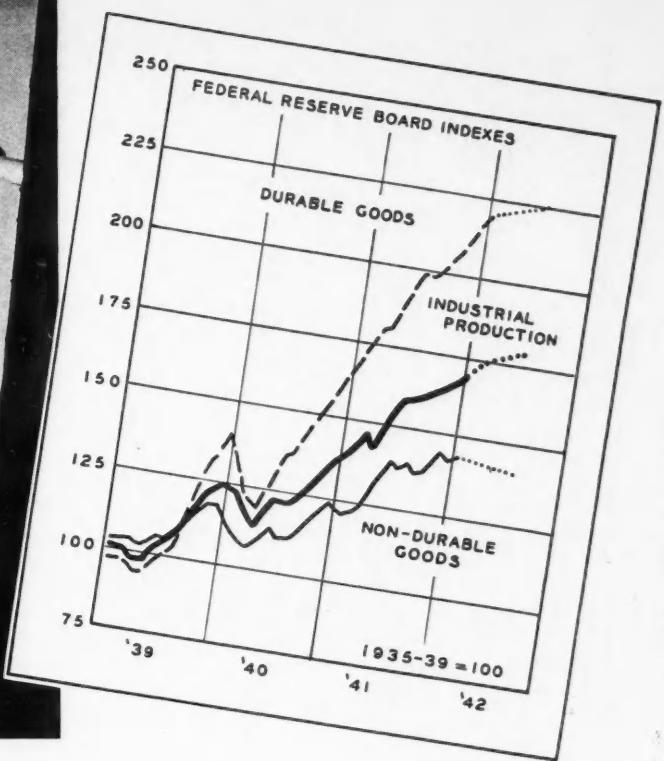
What's to turn the thing around? We don't know—but it will turn around in due course, as it always has before. And keep it in mind that the modern "thinness" of the market works both ways. When buyers are few, light selling puts prices down sharply. On the other hand, when sellers are few, light buying suffices to lift prices just a sharply.

The chances are that corporate tax fears of recent weeks will prove to have been exaggerated. Both the House Ways and Means Committee and the Senate Finance Committee show every evidence of an intention to write their own tax legislation, along lines sharply different from the Treasury demands. Congressional sentiment for a sales tax is reported rising; and while the Treasury's proposals as regards excess profits taxation may very well be adopted, there is much opposition in Congress to normal and surtaxes anywhere near as high as Mr. Morgenthau asked.

Remember the gloomy earnings estimates that were prevalent when the 1941 tax legislation was adopted? Thanks to dynamic volume gain, a composite of 200 large industrial companies had larger profits than in 1929! Remember the calculations as to what this and that company could earn if excess profits tax calculations had to be made solely on an invested capital base? Now that fear is out the window. Similarly, current estimates of a 1942 decline of 50 per cent in earnings are premature and probably erroneous. Yet even at that extreme, average industrial earnings would be nearly 50 per cent greater than in 1938—while stock prices average at or under 1938 lows. —Monday, March 16.



Ewing-Galloway



Second Quarter Business In Transition

THREE months of war have proved one thing. It is possible for the United States to have guns and butter too. More and more guns and less and less butter, of course, but little prospect that we will be without butter.

The initial shock of being precipitated into the war as a belligerent has passed. Although we had two years to prepare for war, when the first bombs fell on Pearl Harbor, we were still disorganized industrially. And we are still far from being organized. We still lack utilization of our entire resources and there are many holes in our economic machinery requiring more than "word plugging." If we haven't learned anything else during the first quarter of war, we have discovered that "business as usual" is dead as a dodo. And that is precisely as it should be. War, for the American people is an unusual situation; it is foreign to our way of life, and therefore any attempt to conduct war and business "as usual" is both stupid and wasteful.

Business as usual is dead, but business is still breath-

BY WARD GATES

ing, even if more labored and painfully. We are, first of all, engaged in the biggest business, involving the greatest amount of money in our history and

employing the largest number of persons—the business of war. The war won't last forever. Our economists are well aware of that fact. So is the American businessman. The surest way to lose the war at home while winning battles abroad, is to destroy the roots of business.

One of the first businesses set up in war time is that of censor. Mr. Censor is on the job. He protects our cause by exercising certain restraints on the publication of figures on war industries. You cannot tell all of the story now. It means that complete figures on the disbursement of our billions for war needs are hush hush and that figures on volume of business, other than for war, are still too fluid to serve other than as a gauge.

The process of conversion to war effort is still in progress, and no figures on that score can be accepted as other than partial. However, even the partial figures

are amazing. Conversion of industrial resources and rationing of civilian goods are old stories with the Axis. To us they are new. From the standpoint of conversion we are five years behind the Axis. But because of our potentialities, the fastest possible action now will enable us to catch up, long strides at a time, and, in not too long a time. At present machines and men, which last year produced 20 billion dollars' worth of goods, are convertible to war production. Much of these resources are already geared to our war needs. This industrial power added to the special purpose facilities built and building, will put us within sight of our goal of 40 billion dollars' worth of war production this year. The sooner this conversion is completed, the sooner our armed forces can take the offensive.

This conversion can't be done overnight. At present the number one conversion problem is the automobile industry. A gigantic retooling job must be done there. The industry includes about 900 principal supply firms. About 25 per cent of the industry's facilities are now engaged in the manufacture of military trucks, scout cars, jeeps, jeeps and other military vehicles similar to the industry's normal products. Another 25 per cent is highly specialized machinery that cannot be used in war work. That leaves 50 per cent for complete retooling and even when that job is completed, production will have to await the arrival of additional machinery—new, or existing outside the industry.

It is much the same story in other industries. Not the least of the problems is the training of skilled personnel for new jobs. The biggest problem of all is finding the best ways to bring the little men into the war program. Extensive subcontracting is most certainly one answer. Many small shops have versatile machines that can do work which special purpose machines of larger factories couldn't do without elaborate retooling.

Some examples of present subcontracting methods include the case of a motor company filling a contract for 20 mm. automatic guns and doing only 7 per cent of the work in its plant. The remainder is handled by a swarm of smaller plants which could make parts on existing machinery. Another firm—an axle company—increased its production 400 per cent with practically no plant

expansion or retooling, simply by farming out work to shops equipped to handle it.

Giant strides have been taken during the past few months as is indicated by the fact that authorized expenditures for war, including foreign orders, from the beginning of the defense effort through February 15, plus requests for war purposes now before Congress, total an estimated 145 billion dollars, according to the Division of Statistics of the WPB.

While the OPA has not been overly active in setting ceilings on prices, Mr. Henderson let it be known last month that he is merely biding his time. He intimated a ceiling will soon be placed on women's rayon hosiery and, in a sharply worded telegram, asked for immediate cancellation of recent increases in prices of radio receiving sets and radio phonographs.

Wages Are Problem

The question of wages still remains a figurative "black out" to all stabilization plans. There has not been, nor is likely to be in the immediate future, any ceiling on wages, nor any positive legislation which will insure uninterrupted war work during periods of dispute. Ernest Kanzler, Chief of the Automotive Branch, WPB, in Detroit, declared that strides are being made by the automotive industry, not only for complete conversion of their facilities, but toward an agreement on wage stabilization in the tool and die shops which should eliminate one of the most serious barriers to speedy conversion. The agreement, being negotiated by Sidney Hillman, will open the way for training and upgrading more tool and die workers.

If the automotive industry is to meet its commitments in 1942, tool shops in the Detroit district must work night and day. A shortage of tool makers makes this a most difficult task. A U. S. Employment Service survey showed that in 274 plants in the Detroit area there are 28,000 persons employed in these tool shops, of which 22,000 are tool makers and die makers. This is insufficient for the present tool and fixture load.

After completing a survey of available machine tools the WPB has estimated that this year there will be a

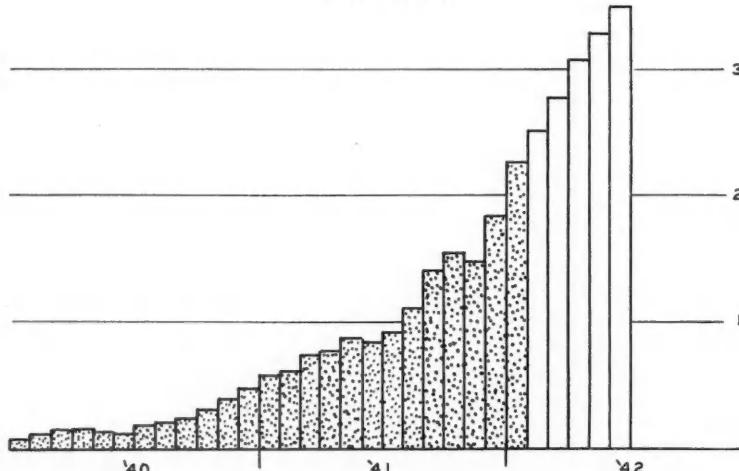
billion dollar shortage on that front. Estimated production figures for the year were set at \$1,100,000,000 worth of machine tools and \$260,000,000 worth of cutting tools, or a total of \$1,360,000,000 worth. Requirements for the year are set at \$2,000,000,000 worth of machine tools and \$360,000,000 worth of cutting tools, or a total of \$2,360,000,000.

The labor situation in the automotive industry is a vital problem. Before the industry can hit its peak war production schedule, it will need between 800,000 and 1,000,000 workers, compared to 550,000 during peace time.

Donald Nelson has been

NATIONAL DEFENSE EXPENDITURES

BILLION DOLLARS



preaching and threatening; he has painted darker and darker pictures with each utterance. Talking to 125 publishers and editors, he said, "America has wasted the golden hours of the last months. If the silver hours of the next ten months are not used to the fullest extent victory for the United States may well be impossible." Stressing the need for subcontracting methods to embrace little as well as big industry, Mr. Nelson declared, "there isn't a single producer who can't do more than he is doing now if he subcontracts part of the job." He told the editors that management must become more resourceful, more alert and do much more than they are doing now.

The constant cry is for more hands in war industry. About 10,000,000 more workers must be put into war production this year, Col. Frank J. McSherry, deputy director for Labor Supply and Training of Labor of the Labor Division, declared. Two millions of those must be new workers, he declared, men and women not now engaged in production. Of the total, 37 per cent must be highly skilled, 38 per cent semi-skilled or single skilled while the remainder must be fitted for manual labor or work as helpers. That means serious inroads in the general labor market. It means that priorities or no priorities, the dearth of available labor for non-essential industry will seriously curtail production there.

Shifting of Workers

The economic readjustment, of which we are now only getting a foretaste, will soon make its weight felt sharply in the banking field. If the war continues and our present national plans are carried into effect, by the middle of 1943, Dr. Neil H. Jacoby, Professor of Finance and Secretary of the University of Chicago, pointed out, half of an augmented labor force of 60 millions will be serving in the armed forces or toiling in mines and factories turning out war materials. This, he said, means a shifting of the occupation of another 15 to 20 millions of workers during the next year and a half—"a task so stupendous that it may be measured only by observing that the maximum number of persons drawn into private employment from idleness during any one year of the depression was about three million. In dollar terms, the equivalent of half of the 1943 national income, estimated at present price levels at between 110 and 120 billions, may be spent on warfare. If half of national production goes for warfare, only the remaining half would be available for consumption. The average *real* income of consumers may be less per capita, than that realized during the worst days of the Great Depression—when 15 or 20 million families had no employment."

The real burdens of the war effort, it now becomes obvious, so far felt only by the upper and middle income groups, will be shared by consumers in the lower income brackets. The American people will have to become psychologically prepared for many irksome restrictions.

IN A NUTSHELL

The story of the second quarter will be increased war output, decreased production for civilians. Inadequacy of raw materials—especially steel—will moderate the former, intensify the latter. Index of total production will rise only 2 to 4 points.

Radios and washing machines are next in line for full conversion to war work, stoppage of civilian supply. All non-essential goods made of metals will rapidly follow these and the passenger automobile into extinction, and their producers must convert or stagnate. Typical items include adding machines, air-conditioning equipment, cameras, cash registers, clocks, clothes wringers, construction equipment, hardware, cooking utensils, all electrical appliances, gas appliances, fountain pens, jewelry, heating equipment, gasoline pumps, metal furniture, laundry equipment, locks, mechanical toys, metal windows, musical instruments, oil burners, plumbing equipment, printing equipment, refrigerating machinery, slide fasteners, sports goods, stoves, vacuum cleaners, etc.

Supply of soft consumer goods will be increasingly tight but still adequate in most lines. Total consumer income available for spending will rise further, despite higher taxes—but peak of the consumer hoarding rush seems past. Rise in prices and cost of living will continue; and second quarter will see first important application of retail price ceilings and start of rationing.

Dr. Jacoby sketches a rather gloomy future for business. He said: "As time goes on, the manager or owner will cease to be 'boss' in his business. He may be told what to produce and how much. If he is producing a commodity useful in warfare, he may be allocated such materials as the government can spare. If he is not, he may have to lock up his plant, or consolidate with other firms. His plant, machinery, workers or raw materials, may be commandeered for use in other plants. He may be able to get material, to expand his plant, or to make capital investments only if it will augment the war effort. The price at which he sells his products may be fixed. If he makes any profits, he may be compelled to purchase defense bonds with surplus cash. Such conditions will do the greatest damage to 'small business.'

Banking institutions are faced with possibilities of more rigorous control. The first effort of this war to use the financial machinery for prevention of inflation, was taken recently by consumer credit regulations of the Federal Reserve authority. Its accomplishments have been considerably nullified, so far as installment buying is concerned, by the fact there won't be any automobiles, tires, typewriters and possibly refrigerators and radios for general sale. Banks will find fewer outlets for loans than ever and see considerable of their savings deposits withdrawn to purchase the very Defense Bonds they are buying for the bank's use. It is extremely likely that bankers will be permitted to make business loans only to firms producing war material. Such demands for credits will no doubt increase and may, eventually, lead to a rationing of credits.

Both military and industrial developments are moving with such rapidity it is difficult to make many forecasts as to just what is going to happen—precisely when. However, we can point out that the second quarter of 1942, like the first quarter, will show considerable acceleration in defense tempo, will bring about more and more business restriction and will pave (*Please turn to page 677*)

Happening in Washington



Charles Phelps Cushing Photo

BY E. K. T.

Congress has no intention of writing a tax bill conforming to Treasury Secretary Morgenthau's specifications. Legislators will subtract here, add there and maybe multiply somewhere else. The total yield won't be so great, the specific details won't be so drastic as sought by the Treasury. But after all the orating and manipulating and acting is out of the way, the average taxpayer can figure on paying in visible taxes next year just about twice his 1941 contribution. That would temporarily satisfy the Treasury. It's likely to be the net result of 1942 legislating.

Washington Sees:

Treasury Secretary Morgenthau's corporation tax plan fails to satisfy Congress in that it establishes inadequate distinction between war profits and earnings by non-war enterprise. It will be drastically altered before enactment.

Congress wants a corporate taxing scheme that will actually flatten war profits without flattening the little fellow and consumer goods companies whose war-created difficulties already are multiplying. Morgenthau's proposals afford no such formula.

Congress is willing to pare dividends, but not halve them by a war surtax on companies with declining income. Morgenthau wants to shrink dividends to curb inflation. Congress is unwilling to desiccate them solely for that purpose and without regard for the welfare of Americans whose subsistence derives from dividend income.

Morgenthau wants to impose corporation tax schedules more drastic than those in Canada and Britain. Congress isn't yet ready for that extremity. So Congress will revise the Morgenthau plan, but exactly how Congress itself doesn't yet know.

Logrolling will make rough the path of the revenue measure. More so than usual are special interests involved—insurance companies, oil and mining depletion, tax-exempt securities, joint returns, consolidated returns, excise taxes. Already special interest groups have spread their blankets in Washington. Patriotism will dictate no moratorium in logrolling.

Tax legislation will not be split into segments, one dealing with excise levies and the other with general schedules, the idea being to speed enactment of the excise imposts so they might become immediately operative. The Administration tried that same splitting maneuver last year and failed. It will fail again. Congress wants to consider the whole bitter revenue medicine as an integrated prescription to be gulped down in one dose. The new bill won't become law for many months—not before July or maybe August.

Justice Department has duped the House Small Business Committee into airing charges fire insurance premiums should be flattened to help win the war. Such tactics will achieve no reform, can only plunge the drive to save small enterprise into disrepute.

Boland Bill, HR 6358, so revising the capital gains tax as to encourage business expansion, has little chance of approval. Representative Boland, Pennsylvania, Democratic Whip of the House, is a Ways and Means Committee member and will call up his measure while that group works on the revenue bill. But the Treasury has submitted a capital gains change of its own, and it is doubtful Boland can displace this with his plan despite the fact Congressmen the country over are receiving bales of letters backing the Pennsylvania legislator.

Price Administrator Henderson now has at his fingertips complete information on corporation earnings which he may use for cost bases in determining maximum prices. By executive order the President has thrown open to Henderson corporation income tax returns filed for the fiscal years beginning July 1, 1935, and ending before July 1, 1941.

Consumer purchases in 1942 are expected to be about ten per cent less in volume than last year, but consumer expenditures will be unchanged because of 12 per cent higher prices. Prices may go higher as there is danger of inflation. Manufactured goods output will be down sharply, but large inventories accumulated from 1941 production will soften severity of the pinch. Only an aggressive government tax policy can prevent damaging inflation. That's the confidential 1942 outlook laid before the President's Cabinet by official estimators.

National income is being estimated at 113 billion dollars for 1942. This represents an 18 per cent gain over 1941 income of 94½ billion. But increased prices are expected to flatten this hike to about seven per cent. That is less than half the 16 per cent increase in 1941 income.

Donald Nelson's toughness is finally seeping down through his War Production Board organization. Dollar-a-year men and other industrial advisors are beginning to reflect it. That's encouraging, will beget progress. Heretofore W P B consultants have drooped a reassuring eyelid at inquiring industry, have made their brethren on the outside believe the war boot might not pinch so hurtfully after all. Now for the first time Nelson's underlings are publicly shedding this optimistic front. Like the boss, they're getting right down to bed rock, dealing out realities rather than hopes. Industry is learning the truth, will know better what to expect, what is expected of it.

Even Congressmen are getting wind of this new W P B virility. Recently a House member of long service handed out to newsmen interesting dope about projected conversion of the typewriter industry to war production. A couple of days later a W P B voice on the telephone suggested the Congressman keep his mouth shut. He did and is.

Jurisdictional strikes will shortly be quarantined for the duration. They're causing more production delays than is generally apparent. Around Washington there's no sympathy for such disputes in wartime, and unless CIO and AFL cleanse their houses of jurisdictional bickerings promptly War Labor Board retribution is anticipated. Deplorable fact is that the National Labor Relations Board still encourages workers to agitate for jurisdictional elections right in the heart of war industries. That outfit seems devoid of realism.

Lose talk and rumors are encouraged by Administration lack of candor. Frequently high strategists testify

before small congressional groups in off-the-record proceedings, and later choice morsels of this "confidential" dope is peddled second hand to other legislators. Oft times newspapermen learn of ship sinkings from Congressmen many days before Navy confirmation is forthcoming. Lawmakers talk of new munitions plants but arbitrary censors tell reporters they can't print the facts. Failure of the Administration to be frank and realistic contributes to the Cliveden fantasy with which the President amuses Washington. The general public is the goat.

Mutual-aid pact between Britain and the U. S. isn't so conclusive as some observers seem to believe. The fact it carries no time limit is misleading. Its operation won't be checked during the war, but once hostilities have ended Congress will be more cynical in examining its Union Now implications. Congress can impose a destructive veto—particularly with respect to the machinery aimed at destroying protective tariffs.

Guinea pig experiment in keeping small industry alive is to be conducted by the WPB in Connecticut. A Connecticut Victory Council of engineers named by the Governor is singling out ten plants for conversion to war production. WPB will cooperate with men and advice, will even help funnel Federal loans to the factories.

If the plants can't be converted, efforts will be made to line them up for essential consumer business. Donald Nelson has pledged the Governor every cooperation in this realistic step toward spreading war business. If the system works in Connecticut, it will be tried elsewhere.

Petroleum pipeline from Texas to New York is still very much of a possibility. Right now WPB is seriously considering the practicability of lifting numerous small lines criss-crossing Texas, laying them end to end with their pumping stations across the nation. Don't chuck this idea aside. It's regarded as genuinely feasible by many.

Censorship is being evoked to cover Army and Navy laxity and blunders. Right now at a municipal airport an amazing new torpedo plane is being tested daily. The port is public—isn't guarded—anybody can observe design and performance of the fighter. At a certain embarkation point for lend-lease shipments, millions of feet of Government-owned lumber are stacked around highly explosive tons of munitions. In the immediate vicinity are important bridges, defense plants, railroad lines. Recently a photographer wandered about the place 45 minutes snapping pictures unchallenged.



Rep. Doughton, chairman of House Ways & Means Committee

What Could Be More Stupid—or Sinister—Than a Federal Tax Which
Impedes Investment and Speculative Risk-taking, Handicaps Private Capitalist Endeavor, Yet Produces Virtually No Revenue for the Government?

The Capital Gains Tax

BY H. F. TRAVIS

EARLY in January Representative Boland (Dem., Pa.) introduced a bill to revise the capital gains tax. The proposed changes—persuasively supported by Representative Cellar (Dem., N. Y.), by Emil Schram, formerly chairman of the R. F. C. and now President of the New York Stock Exchange, and by many others—are intelligent, realistic, in the interest of a healthy national economy—and even to the advantage of the Treasury itself, since they are calculated to increase, rather than decrease, the aggregate yield from this tax.

Yet among the onerous tax increases recently proposed by the Secretary of the Treasury there is a request to the Congress not only that the evils of the present capital gains tax be retained but that they be made much worse, more inequitable, more certain to check new investment or speculative risk-taking in securities and real estate, more calculated to freeze present investment, likely to reduce still further the present trifling revenue yielded by this tax.

Secretary Morgenthau, and most of his associates in the New Deal, have frequently professed a desire to preserve our private capitalist system. One can only say this is a most strange way to go about it. In this critical time, we have no desire to question the sincerity of Mr. Morgenthau or any other Federal official, but it is necessary to say that his proposals as to the capital gains tax would be, if adopted by Congress, sinister in result if not in intent—another nail in the coffin of private enterprise.

The Morgenthau plan would change both the rate of tax on capital gains and the treatment of capital losses—carrying farther the principle of heads I win, tails you lose. Application of this principle in taxation is a major reason why, even before the war brought us to full Government regimentation, the prospect of a *private* economic recovery under the New Deal receded ever farther in the distance.

It is proposed to define as "long term" any gains realized on assets held more than 18 months, to include 50 per cent of such gain as taxable income, and to apply a maximum effective tax rate of 30 per cent, instead of present rates of 15 to 20 per cent. Long term losses could not be applied against regular income to reduce income tax liability as at present, but could be offset

against either long term or short term capital gains. Short term capital gains would continue to be taxed as regular income. Short term capital losses could be deducted both from short and long term gains but—as at present—could not be deducted from regular income.

Thus for tax purposes, capital gains are treated as an increase in income, but capital losses are not regarded as a decrease in income. There was never a more grossly inequitable, one-sided, short-sighted tax policy. And the United States is the only major nation in the world guilty of such an absurd monstrosity.

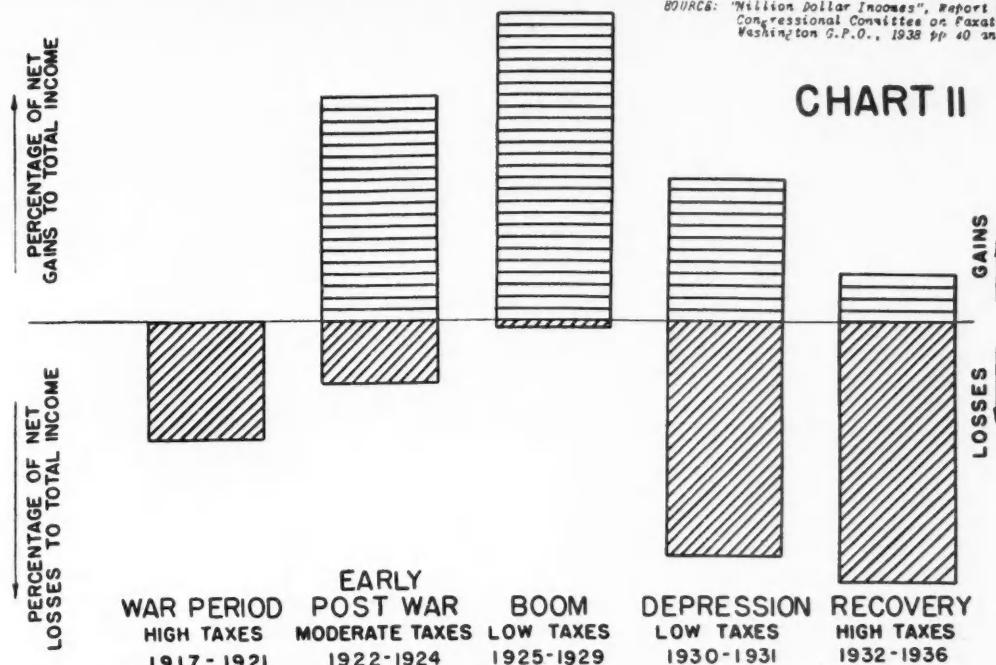
Regretably, it would be quite futile to argue for a sane downward revision of the present capital gains tax on the plea of abstract justice or a square deal for the private investor and risk-taker. These citizens are unorganized, politically impotent—which is why few effective voices are raised in their behalf at Washington and Albany, and why politicians are either indifferent or hostile to their just interests.

But the most anomalous thing about the capital gains tax—wholly apart from any question of equity—is that as now constituted *it does not and can not yield any net return in tax revenue to the Government!* If it brought in important revenue, one could understand—in these times especially—the Treasury's insistence upon retaining it and raising the rates, regardless of its equity. What rational defense can be made of a tax which from the Government's standpoint is non-productive, yet on the other hand has a definitely repressive effect upon private investment, legitimate and socially useful private speculation, and private economic activity?

The statement that the present tax does not produce revenue can not be factually proven, for two reasons. In the first place, the Treasury—for reasons not clear to the outsider—ceased making any official figures available on this subject some time ago. In the second place, of course, we can not measure the financial turnover that does not take place as a direct result of this tax and whose resulting non-existence reduces revenues from other taxes.

Nevertheless the available evidence, as well as common sense deduction, makes out a convincing case for our contention that a high capital gains tax is not

EFFECT ON CAPITAL GAINS AND LOSSES REALIZED OF HIGH AND LOW RATES OF TAX



SOURCE: "Million Dollar Incomes", Report of Joint Congressional Committee on Taxation, Washington G.P.O., 1938 pp 40 and 43.

CHART II

EARLY WAR PERIOD **POST WAR** **BOOM** **DEPRESSION** **RECOVERY**

HIGH TAXES **MODERATE TAXES** **LOW TAXES** **LOW TAXES** **HIGH TAXES**

1917-1921 **1922-1924** **1925-1929** **1930-1931** **1932-1936**

Note that under low rates of tax on capital gains the taxpayer realized heavily on gains and lightly on losses furnishing abundant revenue to the Treasury. Under high rates of tax, the results are reversed; heavy losses and light gains are taken. The Treasury receives little. Even the depression years 1930-1931 showed better results for taxpayer and Treasury than the recovery years 1932-1935, because tax rates were lower.

CHART BY
H. M. CARTLEY, INC.
10 MILLION IT

**This chart is reproduced through the courtesy of Elisha M. Friedman of American Taxpayers Association.*

and cannot be productive. To begin with, it is obvious that if you put a costly penalty on the realization of capital gains, you will greatly reduce the aggregate of gains that are realized, since the owner of the asset retains the option *not to sell*.

Past official figures show that the Government's direct return from the capital gains tax was highest when the rate was low, lowest when the rate was high. The ratio of realized capital gains to total income was very low in the high tax period 1917-1921; was high in the low tax period 1922-1929; and has been extremely low in the New Deal recovery period 1933-1936. Moreover, the ratio of capital losses taken to total income—reflecting compelling urge to reduce income tax liability—was heavier in the period 1933-1936 than ever before. There is no reason to suppose this was changed in more recent years—except to intensify the trend.

In 1925-1926-1927 the Treasury's capital gains tax receipts averaged about \$121,000,000 a year. In 1933 the figure was \$16,435,000, but tax deductions due to capital losses amounted to \$50,899,000, so the Treasury lost on balance. Partial data for more recent years support a reasoned guess that over the seven years 1935-1941 the annual receipts could scarcely have averaged as much as \$35,000,000. And it is virtually certain that total income tax deductions, due to realization of capital losses, for the years 1937-1941, have substantially exceeded receipts attributable to

capital gains over the entire New Deal period.

The Treasury's remedy for this would be to end income tax deductions for capital losses and raise the rate on realized capital gains. Again, heads we win, tails you lose—only more so than ever. On this basis, whatever the Treasury got from capital gains would seem to be velvet, and at the proposed rate it might amount—depending upon conditions in the securities and real estate markets—to an annual average revenue somewhere between \$25,000,000 and \$50,000,000.

But what about the deflationary, invisible effects? No one knows the total financial turnover prevented by this tax, but it is certainly easy to believe that the "freezing" lowers the yield of other taxes by an amount considerably greater than any possible yield from a high rate capital gains tax.

The late Morris S. Tremaine, who was Comptroller of the State of New York and for years a critical student of capital gains taxation, was firmly convinced that the gains tax "positively has never produced a dollar of net revenue for the State." He was equally convinced that it likewise positively did not produce revenue for the Federal Treasury. Mr. Tremaine said:

"The law (capital gains tax) dams up the normal ebb and flow of trade. It affects commodity markets, especially real estate. Because of this, many real estate owners have refused attractive offers of purchase, with the result that, in addition (Please turn to page 675)



Ewing Galloway

Gold in the New World Order

BY LAURENCE STERN

THAT ancient and familiar simile by which any scarce or highly desirable thing was described as being "worth its weight in gold" is not being heard anywhere in the world today.

You can't build tanks or airplanes or destroyers out of gold. Today's "precious" metals are such utilitarian ones as steel, copper, aluminum, magnesium, zinc, etc. Which is why the U. S. is sending a mission to South Africa—greatest gold-producing region on earth and one which has boomed fantastically since first Britain and later the U. S. raised the paper money price of gold sharply by depreciating their currencies—to see if the South Africans can't be induced to turn out less gold and more copper, chrome and asbestos.

We propose to continue paying as many dollars to South Africa for the mine output that we buy as we are now paying for her gold but for the same dollars we crave to get more of the utilitarian commodities and less gold for prompt reburial out at Fort Knox or some other dead storage place.

Such news items as this—and the less important

one about a recent "loan" of some \$27,000,000 of gold (not 1/10 of 1 per cent of our total supply) to Central and South American countries—remind us that the "gold problem", about which many people were greatly concerned not so long ago, is still with us.

Today the U. S. monetary stock of this formerly precious metal amounts to slightly more than \$22,700,000,000—which is probably nearly three-quarters of all above-ground gold on this globe. If it were not for the war, which has cut off former imports from nations which are now our enemies, and for the shortage of ships, we would be fairly well on our way to having virtually a world corner on gold.

It is because we have so much more monetary gold than we have any use for, and the rest of the world so little, that great numbers of literate Americans came to regard the gold problem with misgiving and apprehension—and, incidentally, with considerable ignorance of the realities involved. What was in their minds was that foreigners were playing us for suckers, gladly dumping gold here because our price of \$35 an ounce

was not only excessive but the highest available in the world; that the rest of the world might never go back to any kind of a gold standard; that we would be left holding the bag; that in some way we would have to take a big "loss" on our enormous accumulation of gold.

What are the facts?

Fact No. 1 is that our price for gold in paper money is not one bit higher than the price it commands in any other currency which has been proportionately depreciated from former gold parity and most have been depreciated more than the dollar. At the time when gold was flowing here from France, for instance, for any given weight of gold a Frenchman could get just as much money value—and with the money buy just as much value in securities or commodities or other assets—by selling his gold in Paris as he could do by selling it to the United States Government.

In short, it was something other than the factor of the dollar price we pay for gold that caused approximately \$16,000,000,000 of the metal to come to the United States after the dollar was revalued and stabilized early in 1934. The movement would have been no less if our stabilized dollar price had been \$30 an ounce or \$21 instead of \$35.

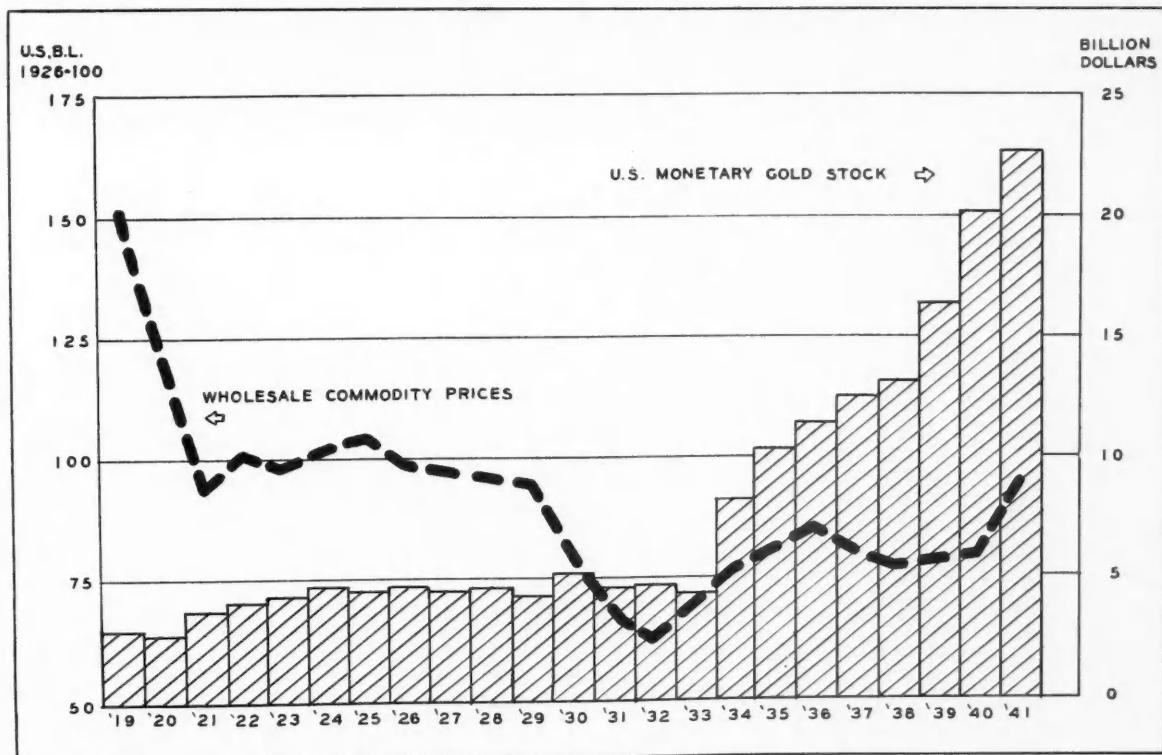
The great inward flow since dollar stabilization in 1934 reflects primarily the political and economic deterioration of Europe, and the resultant flight of liquid capital therefrom. The beginnings of this great shift of "hot money" go back some years. In the late 20's, with the storm clouds gathering, movable capital in the form of gold began to pull out of eastern and middle Europe to havens in Switzerland, Paris and Amsterdam.

As the sore spots spread, London became the greatest gold repository. In recent years the United States became the only safe haven—or at least the safest available. In 1940 nearly four times as much gold came here as in 1936, the dollar price, of course, being the same for both years. Obviously, only accelerated flight of capital to the U. S. explains the increase.

Probably 80 per cent of the gold imports since the end of 1933 represent flight of capital, the balance shipments in settlement of trade balances. The level of the dollar price of gold has no significance in relation to the capital movement; and its only relationship to gold imports for settlement of trade balances is that increased price made available by depreciation of the pound and the dollar greatly stimulated new gold production, so that foreign, as well as domestic producers, could exchange their output for a larger volume of U. S. goods, or dollar balances or other assets.

As compared with 1929, U. S. annual production of gold has increased by about 170 per cent in physical volume and about 350 per cent in dollar value; while total world production has increased nearly 80 per cent in volume and some 200 per cent in dollar value. In recent years world production has averaged around \$1,200,000,000 a year.

Now the ultimate utility or intrinsic worth of our gold pile is subject to question, but its "value" in money price is whatever we choose to make it, and will remain utterly beyond the control of the outside world. Hence the fear that the Treasury will some day in some way have to "take a big loss" on its gold holdings is fantastically absurd.





Wide World

From the practical point of view of the outside world, it is the value of the dollar—strongest and most eagerly sought currency in the world—which today supports the value of gold, and not the reverse. This will remain true as far ahead as anyone can now foresee. Moreover, we are not the only nation which has a vested interest in maintaining the value of gold as a storehouse and measuring rod of wealth, and as at least a psychological monetary base. The British Empire—South Africa and Canada being large gold producers—has a stake in the matter. So has every other nation whose people want American goods or dollar balances and who have gold which can be used for payment.

What it boils down to is that our gold purchases have been a boon to the outer world, have to some extent subsidized our export trade—but our possession of the gold is quite harmless to our national interests except to the extent that its availability might facilitate inflation. With respect to the latter threat, however, commodity supply-demand factors and Federal tax, price and credit controls are far more influential than the question of how much gold is available for a monetary base.

The purpose of dollar revaluation, of course, was to raise the internal price level of commodities and restore approximately the previous exchange relationship between the dollar and the pound. Depreciated sterling, beginning in 1931, had exerted a deflationary weight on American commodities competing in world markets, and decline in these sympathetically affected most other commodities.

But excepting for temporary, psychological and speculative effect, the tinkering with the price of gold did not and could not raise our internal price level. Gold's

historic influence on commodity prices had ended. Prior to the first World War almost the whole world was on an automatic gold standard. All major currencies were backed by fixed ratios of gold, these ratios therefore fixing international exchange rates. A rise in any nation's monetary gold stocks permitted expansion in currency circulation and credit, which in turn raised commodity prices. When prices advanced, imports increased, gold flowed out to pay for the imports, contraction of monetary gold supply reduced money in circulation and credit, which then caused prices to decline.

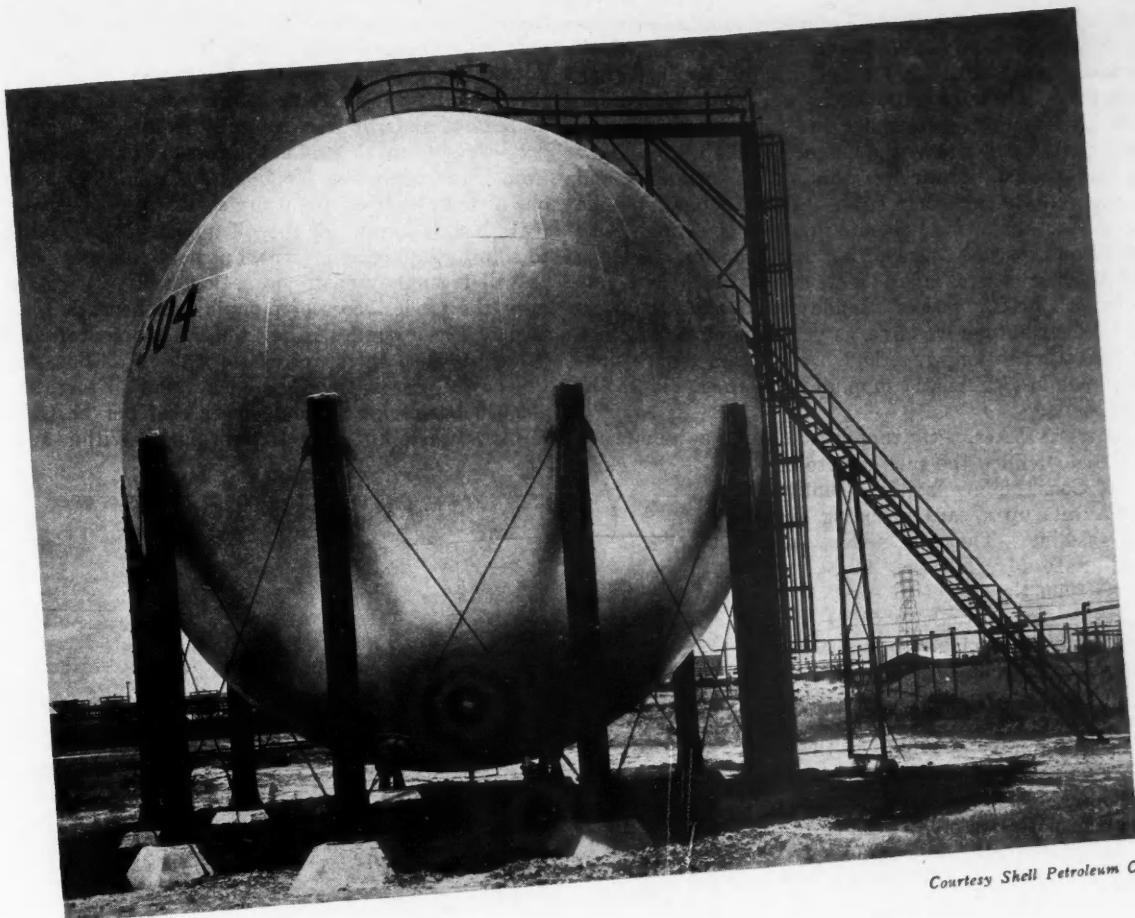
Under that system, which broke down with the World War, no gold standard nation could have full control of its monetary-credit system, nor insulate its monetary system or its economy against disturbances originating abroad. Today for all practical purposes, even in the United States, gold has no significant relationship to the volume of outstanding currency or bank credit—hence no relationship to commodity prices—and for the purpose of maintaining order and balance in foreign exchange relationships the device of the stabilization fund has proved a perfectly satisfactory mechanism.

Confidence In Gold

On the other hand it is true that millions of people all over the world still have a mystical confidence in a gold-backed currency, even though the gold is nationalized and the individual can not convert his banknotes into the metal. For that psychological reason the huge store of gold increases the prestige of the dollar in the eyes of these people—and probably they are still a majority of all people and are likely to remain so for an indefinite time to come. Because the gold increases their confidence in the dollar, it is a strong psychological barrier to the inflation threat inherent in our present huge expansion of monetary supply in a setting of reduced consumer goods supply. If we had only a small monetary gold stock or none, with soaring Federal debt, distrust of the intrinsic worth of the dollar would certainly be much greater than it is.

It should be remembered that when the dollar was revalued our Government—not being insane—did not use any of its “profit” on gold to finance public spending or pay off any indebtedness. That would have been monetary inflation pure and simple, differing only in method from printing greenbacks. Suggestions—and some are current—that the Government in future may again “write up” the dollar value of the gold and apply the “profit” against a burdensome public debt are fantastic. That would be no less outright repudiation than getting the money by turning on the printing presses, and either method would wreck both domestic and foreign confidence in the dollar. Widespread sale of defense bonds should be an increasing guarantee, if any be needed, against any such fiscal recklessness.

In the final analysis, such future as gold has as a monetary metal depends almost entirely on the outcome of the war. If Hitler dictates the peace—of course, he will not—he would be master of Europe and Africa, including the South African gold mines, and possibly of Asia too. No doubt he would be glad to exchange gold for American goods, on his own terms—but on that basis it is greatly (Please turn to page 674)



Courtesy Shell Petroleum Corp.

Oil's Crucial War Role

BY HENRY L. BLACKBURN

THE flow of oil from American fields may yet determine the tide of victory in the bitter battle against Axis aggression.

If airplanes, tanks, trucks and big guns, mechanically operated and transported, coupled with sea strength, are the tools of a victorious all-out war, then petroleum and its many by-products will clinch the victory.

To "keep 'em rolling, flying, sailing," or grinding out additional sinews, petroleum is indispensable. And because the United States has long been, not only the greatest user of petroleum, but its greatest producer, our every day life, as well as our industrial existence, has been more closely geared to the oil derrick than that of any other people. Consequently the "romance of oil" translated into cold figures on production and transportation, consumption and dollar income and

earnings, spell achievement in its fullest sense.

The highway travelled by petroleum has never been a bed of roses. But all the economic and geo-physical thorns strewn in its path heretofore are as down compared with the obstacles confronting the industry today—with the world aflame.

The strategy of modern warfare demands control of oil supplies and lanes of travel used by oil carriers. The lives of men must be spent in capturing or defending such oil sources that the lives of other men may be preserved by the armies controlling oil supplies.

Here we have an adequate supply of oil. Reserves, thanks to pro-ration and other methods minimizing waste, have increased steadily on this continent since the initial wells were brought in last century in the hills of Pennsylvania. New fields, new methods of ex-

tracting oil from the ground, and improvements in refining have added immeasurably to these reserves, which normally more than keep pace with rapidly increasing demands. Then, to supplement our own production, through American companies, we have drawn largely upon the oil deposits of the balance of the world. Now the mailed fist of war has shut off importations and markets in Europe since 1939, destroying our oil trade and oil sources in Asia. In addition to this, U-boats have waged an especially devastating war upon tankers along the Atlantic coastal lanes. Yet, except for a tightening of our oil belts, "gasless" Sundays and curfews on regional distribution, we have, as yet, suffered no shortage necessitating rationing, although continued tanker sinkings, plus loss of Asiatic supplies, has brought us to the threshhold.

Secretary Ickes, petroleum coordinator, has announced a plan to reduce the sale of gasoline to East Coast filling stations until the OPA sets up a card rationing system for gasoline. The first reduction, according to Mr. Ickes, is to be set at "less" than the cut of 25 per cent from corresponding periods of 1941 recommended by the petroleum industry committees for the Eastern district, through John A. Brown, president, Socony-Vacuum Company, and general chairman of the industry groups in the Eastern area covering seventeen states.

Today we are vitally concerned with the transportation of oil, even more than in its production. It is definitely true that production figures must be "stepped up" to meet ever-increasing demands, but production without delivery is of little value. Latest production figures for the entire nation show a slight decline over a similar period a year ago. However, gasoline inventories and light and heavy fuel oil on the East Coast are dropping steadily. For the nation as a whole gasoline stocks are up, reaching a new record of 106,668,000 barrels, as contrasted with 96,075,000 a year ago. These figures include stocks of aviation gasoline.

Oil is a fluid. Because it is a fluid it enjoys a unique position among natural resources. It can be transported in every conceivable fashion. It flows through pipe lines, is transported by tankers, in tank cars and trucks, in barrels and in cans or other containers that are leak-proof. Petroleum, which is extracted from pools below the earth, starts flowing the moment it is "shot" or pumped to the surface through pipes, and flows, with brief pauses for storage and refining, the remainder of its useful life.

The flow of oil from the production centers of the United States to the United Nations and to the Atlantic Seaboard has been seriously hampered by tanker sinkings, shortage of rail shipping facilities and insufficient pipe lines from production and refinery points to market terminals. However, increases in pipe-line facilities will greatly expedite transportation of domestic petroleum

from point of origin to refinery and from refineries to marketing distribution centers. When you consider that oil flows at a speed of approximately three miles an hour through a pipe line with no danger from enemy torpedoes or bombs, and the average time required for a 10,000 dead-weight ton, eleven knot tanker to complete a voyage from Houston to New York is eight to nine days, every one of them exposed to enemy attack, pipe lines are the real "blood stream" of the oil industry. It is cheaper to ship by tanker at present, but networks of pipe lines, as will ultimately span the nation, will tend to reduce even the modest cost of pumping oil beneath the surface of the ground. It certainly is more profitable to deliver 100,000 barrels of oil through an oil line, even if the barrel cost is slightly higher, than to lose, at sea, 200,000 barrels at a much lower cost per barrel mile. Tankers waste but little time in port. Within an hour



Photo courtesy Shell Union.

of arrival the tanker is ready to discharge her tanks. This can be done at rates as high as 15,000 barrels an hour. And, except for loading of fresh foods and supplies, which is done simultaneously with cargo loading or discharging, there is no further delay. Here is an example of the importance of tanker shipping. Shell Oil Company, Inc., just one of the many large oil companies utilizing tanker facilities, last year moved more than 40,000,000 barrels of crude oil and petroleum products from its West and Gulf Coast refineries to its Marine Terminals.

The recent completion of the Plantation Pipe Line has aided materially in the transportation of petroleum from the Gulf Coast to Northeastern markets. The new pipe line, 1,261 miles long, just completed by the Standard Oil Company, New Jersey; Standard Oil Company, Kentucky, and Shell Union Oil Corporation, reaches from Baton Rouge, La., to Greensboro, N. C., with branches to Montgomery and Birmingham, Ala., to Macon and

OIL FOR THE INVESTOR

Presented in a "nutshell" are 9 both long and short range "whys" for and against investing in petroleum securities.

1. Approximately 30,000,000 operative automobiles exist in the U.S.A. today. In 12 months, due to age and wearing out of tires, that number probably will dwindle to 24,000,000; within another 12 months the figure will probably not exceed 15,000,000. This means progressive decline in civilian use of gasoline and lubricants.

2. Of the total number of automobiles in use, the vast majority will travel considerably fewer miles per year and will be driven more economically.

3. No one can accurately predict how high corporate taxes will mount. Huge increases in such taxes will materially reduce net earnings.

4. It is still too soon to be able to say with certainty that military consumption of petroleum, both at home and abroad, will offset the drop in civilian use. If military consumption equals or exceeds the drop in civilian use, the question must be weighed whether transportation facilities will permit meeting military requirements, especially over-seas.

5. Consider whether the government, because of war emergencies, will continue the present depletion allowances, or whether they will be cut, thus again reducing net income. What new government regulations are likely?

6. The other side of the story. Despite the fact most oil stocks are selling at unusually low prices, the industry is making giant strides in the production of chemicals, explosives, synthetic rubber and other by-products.

7. The tanker building program is steadily increasing, and, with reduced civilian consumption and increased transportation facilities, better opportunity exists to supply military needs.

8. It costs less to sell petroleum products directly to the government than in the open market.

9. New exploration, drilling and refining methods are constantly reducing per barrel costs.

served by the new line there are 18 army camps completed, or in process of construction, and 30 airports suitable for military use.

Its value to our national defense can scarcely be over-estimated. Of the total estimated aviation gasoline requirements by the army during the first six months of 1942, more than 17 per cent will be used in the six states served by the pipe line.

Broke Records

Pipe lines in the nation transport approximately 4,000,000,000 gallons of gasoline and other refined products annually. Transport them in war or peace with safety, with an exceptionally low accident record. The new line broke numerous records. It cost \$20,000,000 to build the line which, at one time employed 3,247 men and at the peak of construction laid 112 miles of pipe in one week. The line is constructed to handle as many as 22 different products.

Another important facet to the petroleum picture is the continued expansion of petroleum based chemicals and now, the greatly augmented defense outputs of toluene for T.N.T., and butadiene for synthetic rubber and aviation gasoline. Toluene production is of vital importance and the petroleum industry is devoting a considerable portion of its energies and resources to producing this necessary explosive base in large quantities. Just how important a role petroleum-produced

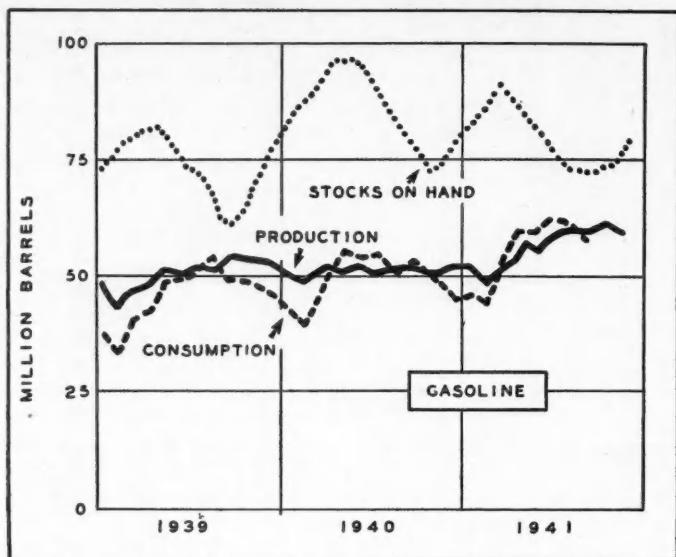
synthetic rubber will play in the future of the oil business, and whether it will be produced in sufficient quantity at reasonable cost to swing its own weight in the present war, is still problematical. However, with the complete loss of rubber production from Asia and the Islands of the Pacific; with rubber production in Brazil

Columbus, Ga., and to Chattanooga and Knoxville, Tenn. This is the largest products line ever built, being capable of carrying 89 per cent of the total requirements of 280,000 square miles of territory. More than 15,000 manufacturing plants, most of which are devoted to war production, are within reach of the line. Iron, steel airplanes, guns, powder, lumber, cement, cotton goods and paper are a few of the products produced adjacent to its right of way.

Practically all of these war and industrial firms use great quantities of petroleum products ranging from high grade aviation gasoline to heavy fuel oil. Until completion of the new pipe line the bulk of their fuel requirements had been transported from the Gulf refineries via tanker to the Middle Atlantic ports and thence by rail, barge or tank truck to ultimate destinations. The line, running at full capacity, releases for other duties ten tankers which otherwise would serve the Gulf and Southern Atlantic coastal area. To keep this system completely filled requires 21,000,000 gallons of products—an underground "inventory" sufficient to put 15 gallons each in 1,400,000 automobiles. The area served by the Plantation Pipe Line, which is but one of many lines, annually consumes 47,000,000 barrels of gasoline along with vast quantities of other refined petroleum products. In addition to the industries



Photo courtesy Shell Union.



and Liberia far inadequate, and war demands for rubber almost frantic, it is logical to assume that the development of petroleum made rubber will be given greater and greater impetus. Of course such rubber production may have post-war repercussions. All estimates of its permanent value should include a projection into the future—the post war future. The United States, as a result of the Rio de Janeiro and Havana Conferences, is pledged to assist Latin America develop its real and potential production. Rubber is an important item in a Brazil seeking greater diversification. We are now urging Brazil to develop the rubber industry; even loaning her money for that purpose. What about tomorrow? When East Asiatic markets are available what then? Where will Brazil stand then and what will we do about it?

The answer appears to be that synthetic rubber factories built here by the Federal government, or with government money, can easily be shut down. But not so with privately financed and owned factories. With an eye toward possible future wars it might not be advisable to shut such factories down even when actual need for their products is gone. At any rate the role the petroleum industry is playing in the rubber field is likely to increase rather than to decrease.

Of course to value the oil situation from a financial standpoint consideration must be given to many factors. The industry is largely divided into four groups, producers, marketers, refiners and transportation companies. These same groups must again be classified as to whether or not they are engaged solely in domestic or in both domestic and foreign production, marketing and refining. Many companies are all-inclusive. Naturally those having the more extensive foreign holdings or markets have been the hardest hit, such as Socony-Vacuum. Considerable secrecy shrouds the losses sustained by these companies through the destruction and confiscation of much of their European properties and the total loss, by capture or self-destruction, of their Asiatic holdings. Neither the companies involved, nor the military, for obvious

reasons, have even intimated just what these losses amount to in either barrels or dollars. But the losses cannot be ignored when the matter of net earnings is considered. They just can't be "written off" and forgotten. Strictly domestic firms and producers only have avoided those international financial headaches. For example, Phillips Petroleum Company, producer and marketer, show a high record of net earnings for 1941. They report an all-time peak in production and distribution. Despite tax increases and higher payments for wages and materials, net profit for 1941 after all charges and reserves was \$17,436,977, equal to \$3.92 a share on 4,449,052 shares of common capital stock, excluding 439,560 shares reserved for conversion of 1 3/4 per cent debentures. Net for 1940 was \$11,590,318, or \$2.61 a share.

Gross operating income of \$142,716,584 established a new high, being \$25,546,871 higher than for 1940. Inventory showed little change being \$20,957,388 on Dec. 31 against \$20,566,830 a year earlier. Total sale of Phillips products in 1941 were at a new high of 1,309,000,000 gallons, an increase of 11.5 per cent over 1940.

Despite foreign losses the major companies show steady profit sheets for 1941. Some of them are much better than in 1940. Even a slight decline in profits, due to tax increases, operating expenses, loss of foreign markets and producing and refining facilities, will, in a measure, be off-set by new discoveries and reserves which have been set up for that purpose.

Curtailment in domestic retail business means a reduction in marketing costs. Advertising appropriations, according to present indications, will remain about the same.

Most of the major companies realize the public is short-memoried. They are aware of the fact that service is their most attractive normal commodity. Therefore, they plan to continue their advertising campaigns. Even with retail demands reduced, institutional and educational advertising copy will continue to flow from the advertising offices of the majority of companies. They know, all too well, that once forgotten they are dead. To resurrect interest in a product or company once forgotten, is the most difficult and hopeless of tasks.

Then too, cost of handling government business, which is now the number one marketing factor, is considerably less than normal competitive selling and will swell per barrel profits and offset, to some extent, raising tax costs.

An early Spring, which by the time this reaches print, will either be a reality or just more exploded wishful thinking, may solve the fuel oil shortage for the Eastern Seaboard. Tanker sinkings, lack of adequate transportation, inability to store safely more than a limited quantity, and priority of government and military needs have been reflected in that area by a definite shortage of fuel oil which, late in February and even early in March, threatened to cut-off fuel for domestic heating. Voluntary curtailments, as much as 20 per cent, were called for by apartment and dwelling owners, to conserve such fuel as was obtainable. Rising mercury and release of additional tank cars were the "last minute" factors preventing real suffering from the cold. Even now, a sudden cold snap, or a wet, blustery Spring, (Please turn to page 677)

Comp Amerda
Atlantic
Barnsdall
Consolid
Continent
Gulf Oil
Humble
Mid-Cont
Ohio Oil
Panhandle
Phillips P
Plymouth
Pure Oil
Seaboard
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Position of Leading Oil Stocks

Company	Federal Tax Basis (1)			Earned Per Share		Dividends Paid		Investment Market Rating	COMMENT
	Average Net 1936-1939	Book Value	Tax Rating	1940	1941 (Est.)	1939	1941		
Amerada.....	\$2.25	\$20.39	b	\$2.25	\$3.00	\$2.00	\$2.00	B-2	Has large number of producing wells. Satisfactory crude prices permits absorbing higher taxes and intangible costs. Dividend secure and may possibly be improved later on.
Atlantic Refining.....	2.29	58.37	b	2.11	5.16Ac	1.00	2.00	B-3	Raw material and shipping costs higher but sustained volume of sales at favorable prices will permit absorption of increased taxes although earnings from this point onward may decline.
Barnsdall Oil.....	0.97	5.86	c	0.97	2.00	0.90	0.60	C-2	Recently sold some property, but new discoveries and increased production have offset sale. Good crude prices will probably be maintained. Higher taxes may reduce profits but not drastically.
Consolidated Oil.....	0.94	18.17	c	0.28	1.25	0.80	0.50	B-2	Limitations on pipe line profits will augment effect of higher taxes. Earnings may be moderately lower although not sufficiently so to have immediate adverse effect on dividends.
Continental Oil.....	1.87	21.60	c	0.92	2.50	1.00	1.00	B-2	Company one of the very few integrated organizations able to sell crude oil on balance. This should stabilize earnings although profit margins likely to be lower. Dividend is well protected.
Gulf Oil.....	2.38	38.62	b	2.44	3.50	1.00	1.50	B-2	Improved domestic facilities and better demand for South American crude favor earnings prospect, although taxes etc. may slow pace of increase. Conservative dividend policy likely to continue.
Humble Oil.....	4.08	34.82	c	3.13	4.00	2.00	2.00	B-2	Expanded aviation gasoline and lubricating oils production facilities promise good earnings and they will be augmented by output of Kolom for government. Limit on pipe line profits an offset but dividend is secure.
Mid-Continental Pet.	1.85	32.94	c	1.60	2.50	0.60	1.15	C-2	Current profit margins are better than a year ago but increased taxes prevent any earnings gains. However, prevailing dividend rate amply covered and not likely to be disturbed.
Ohio Oil.....	0.54	19.60	c	1.02	1.30	None	0.50	C-2	Is helped by increase in Texas allowables, although not enough fully to offset higher taxes. Refining and marketing of lesser importance, although here earnings should be well maintained. No change in dividend.
Panhandle P. & R.	0.15	2.73	c	0.03	0.15	None	None	D-2	A marginal situation of but small importance. Well maintained crude prices will assist earnings which have nothing to fear from excess profits taxes. No dividend appears to be in near term prospect.
Phillips Petroleum.....	3.42	39.31	b	2.61	3.92Ac	2.00	2.25	B-2	Besides being a fully integrated oil company, Phillip is an important maker of many synthetic chemicals and aviation gasoline. These lines will show greater than average improvement. Dividend well supported.
Plymouth Oil.....	2.35	8.12	b	1.38	1.42Ac	1.30	1.20St	C-2	Decreased crude production limitations helps profit margins to offset effect of higher taxes. Earnings will be steady to slightly higher. Stock dividends conserve cash but no change in rate anticipated.
Pure Oil.....	1.33	23.71	c	1.21	2.86Ac	0.25	0.50	C-2	Is operating aviation gasoline plant for government. Sales of regular products good and company will benefit from new southern pipe line facilities. Currently high earnings may be shaded but not greatly. Dividend increase possible.
Seaboard Oil.....	1.72	7.32	d	1.05	1.00	1.00	1.00	C-3	Will be adversely affected by reduction of California production and export sales. Full effect blunted by better crude prices but earnings trend probably downward for the present. Higher taxes may cause dividend reduction.
Shell Union Oil.....	1.07	17.40	c	1.05	1.32Ac	0.50	1.00	C-2	Baton Rouge-Greensboro pipe line helps reduce distribution costs and profits will be augmented by increasing production of chemicals and aviation gasoline. No sharp gain in earnings likely but dividend is secure.
Skelly Oil.....	3.69	43.67	b	3.28	6.00	0.75	1.50	B-2	Increased number of wells plus greater allowables helps production and permit crude sales on balance. Aircraft subsidiary increasing earnings which are well protected from excess profits taxes. Dividend may be higher.
Socony-Vacuum.....	1.39	21.30	c	1.17	1.40	0.50	0.50	B-3	Practically all world markets now closed and may cause sizable writedowns for further war losses. Domestic outlook good and may be sufficient to largely offset loss of much foreign income. Conservative dividend will however, be maintained.
S. O. California.....	2.14	44.41	c	1.73	2.25	1.10	1.50	B-3	Adversely affected by loss of export markets, tanker shortages and probable decline in civilian consumption. Partly offset by high rate of industrial activity on coast, but not enough to prevent earnings decline.
S. O. Indiana.....	2.70	44.06	b	2.20	3.25	1.25	1.50	B-2	Better situated in Mid-West to receive crude supplies than on either coast. Civilian consumption may be restricted, but other demand high enough to continue sales volume. Earnings will be steady and dividend well protected.
S. O. New Jersey.....	3.87	48.86	b	4.54	6.00	1.25	2.50	B-3	Since bulk of recent earnings have accrued from domestic sources Far East losses will not unduly affect earnings. Other than oil products are becoming increasingly important. Foreign write-off may reduce share earnings later.
S. O. Ohio.....	4.22	66.45	c	7.44	7.00	1.50	2.50	B-2	Production efficiency improved by new facilities, but earnings will be affected somewhat by lower pipe line returns. Last year's earnings probably the peak, although declines not likely to affect dividend rate.
Sun Oil.....	2.73	41.44	b	3.03	6.21Ac	1.00	1.00	B-2	Shipbuilding profits included in general statement and thus have strong influence on final results. Had about \$300 million unfilled ship orders last year. Earnings likely to rise and dividend possibly increased.
Texas Company.....	3.42	45.35	b	2.90	5.00	2.00	2.50	B-2	Synthetic chemicals and aviation gasoline increasingly important contributors to earnings, which should continue steady. No immediate change in dividend rate contemplated now, but may be revised upward later.
Tidewater Associated...	1.36	15.70	c	1.14	1.85	0.80	1.00	B-2	Tanker shortages and possibly restricted civilian gasoline sales are adverse factors which are in great measure offset by larger government and lease-lend sales. Earnings should provide support for recent dividend rate.
Union Oil, Cal.....	1.65	29.78	c	0.99	1.34Ac	1.05	1.00	B-3	While this is one of the leading independent California companies it is in an unfavorable position for the present due to Pacific and West Coast developments. Dividends, however, will probably be maintained.

(1) Corporations have the option of computing excess profits tax liability either on the invested capital method or the average earnings method. The former allows a credit of 7 to 8% on invested capital; the latter allows a credit of 95% of average earnings for the years 1936-1939. Indicated book value is an approximation of invested capital. b—Not likely to be subject to heavy excess profits taxes. c—Higher taxes will probably reduce earnings. Ac—Actual St—Plus stock.

How National Distillers Is Adjusting to War

BY A. BANCROFT WELLS

WHISKEY probably will cost you a lot more (due to increases in taxes and grain prices) but, war or no war, indications are the supply will be adequate.

The distilling industry faces the future with confidence because, in addition to playing a major role in providing the sinews of war, the threat of another war-time prohibition experiment is unlikely. Earnings in the industry have been high, been steady and have demonstrated that the liquor business today is on a solid footing in every respect.

The case of National Distillers Products Corporation is an excellent example of the stability of the industry and the vital role it is enacting in our National economy. A glance at the annual statement, made public by Mr. Seton Porter, president of the company, shows that during 1941 net sales amounted to \$96,814,098, an increase of 21 per cent over 1940. The net profit for the year, after all charges, including taxes, was \$7,099,656, or \$3.47 a share, as compared with \$6,711,962 or \$3.28 a share in 1940 on the 2,045,451 outstanding shares.

Income before provision for Federal taxes amounted to \$10,338,504, an increase of \$1,399,792, or 15 per cent over 1940. Provision for Federal income and capital stock taxes increased \$1,012,098, or 45 per cent. Regularly quarterly dividends of 50 cents per share were paid and \$892,000 par value of debentures were retired by redemption.

Mr. Porter announced that more than two-thirds of the stockholders, at a special meeting, approved issuance of 150,000 shares of preferred stock, which would not be offered at present.

So much for the financial picture of the company as of today. What of tomorrow? Sales and gross profits probably will be larger than in 1941, operating and administrative costs will continue under efficient control, but net profit will be limited in presently unpredictable degree by higher Federal income taxes. Had the Treasury's proposals been in effect for 1941, net would have been about 34 per cent less.

During 1941 the company acquired two distillery properties in Kentucky, in addition to acquiring Bellows & Co., Inc. The Kentucky distilleries purchased were the Bardstown Distillery, Inc., including the distillery and warehouses having storage capacity of 61,000 barrels, in Nelson County, and the Old Joe Distilling Company, with storage capacity of 41,000 barrels, in Anderson County, together with valuable stocks of aged and aging whiskies.

The completion of two new brick storage warehouses, one at the Old Grand-Dad Distillery in Jefferson County, Ky., and the other at the Carthage Distillery at Cincinnati, brought the company's warehouse facilities to an aggregate storage capacity in excess of 1,800,000 barrels. In 1941 the company produced 22,691,948 gal-

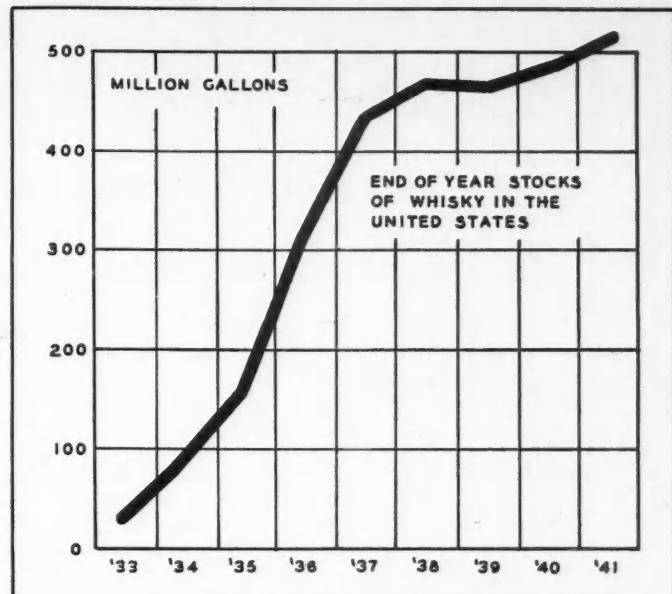


lons, or about 17 per cent of the total production in the nation of 135,166,321 gallons, as compared with 16,454,584 gallons in 1940, or about 15 per cent of the national total of 111,356,106 gallons manufactured during that year.

Mr. Porter declared: "For some months the Company has been producing 190 proof denatured ethyl alcohol at its Carthage Distillery for the Ordnance Department. At the present time, the entire distilling capacity, amounting to 50,000 proof gallons per 24 hour day, of this plant is being utilized for the production of such alcohol for the Government. The Carthage Distillery is the only plant owned by the Company that is equipped for the production of 190 proof alcohol. To the extent that the facilities of the Carthage Distillery are required by the Government, the use by the Company and its subsidiaries of neutral spirits heretofore manufactured at this plant in the production of blended whiskies, gins and cordials, will be curtailed.

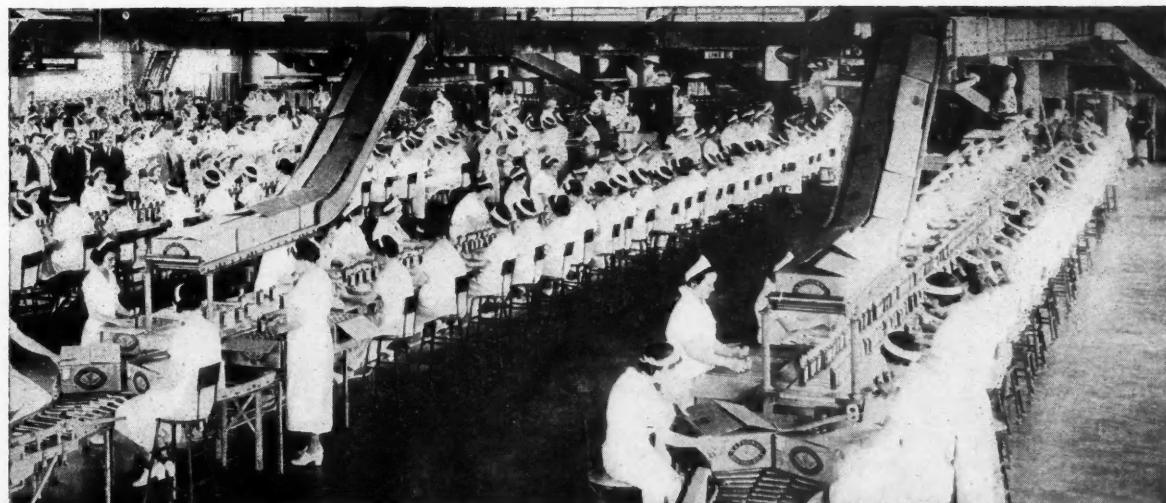
"The eleven other whiskey distilleries in the U. S. A. owned and operated by the Company, are not equipped to produce high proof alcohol, but the low proof spirits which they could produce might be shipped to commercial alcohol plants and redistilled so as to be made available as high proof alcohol for munitions manufacture or for other war purposes. Whether such a procedure will be found advisable to meet temporary emergency needs, the Company cannot predict, but it has offered its facilities to the Government and is prepared to discontinue the manufacture of whiskies at these distilleries and to produce low proof spirits for war purposes whenever called upon."

Referring to the Scotch whiskey situation, Mr. Porter observed, "Since outbreak of War in Europe, all distilling in Scotland has been greatly reduced by Government order owing to the shortage of grain. Sales in Scotland and England and the export trade of Old Angus brand of Scotch whiskey, which is owned by Train & McIntyre, Ltd. to the United States, Canada, South and Central America, and certain other foreign



countries, is being maintained from its inventories of aged whiskies. The Company has stocks of Old Angus in the United States and has been able to obtain replenishments from Scotland. Plants and inventories of whisky owned by Train & McIntyre, Ltd., and its subsidiaries and affiliated companies, are insured by the British Government against war losses and no damage to any of its properties due to enemy action has been reported".

The distillers today are not afraid of prohibition. That war-time spectre is casting no sinister shadow over the industry. Robert Barry, well known newspaperman and now Director of Public Relations for the National Distillers Products Corporation, summed up the matter to the writer by pointing to the fact that a vast difference exists today from conditions in 1917. He said: "Today forty-five of the forty-eight states have voted their preference for a legalized, regulated alcoholic beverage industry. In 1917, many of the States already had voted constitutional or (Please turn to page 676)



Borg-Warner's Strategic Position

The Factors Behind Persistent Market Demand

BY B. M. FULLERTON

PROBABLY no American company could have claimed honestly in September, 1939, to have foreseen the entry of the United States into the war. There are some, however, which seem to have sensed the tremendous significance of the world upheaval and the necessity of adapting themselves to it as quickly as possible.

Among these Borg-Warner holds a prominent place. As early as 1939 the management appears to have realized that armaments would absorb an increasingly large share of American productive facilities and to have shaped its policy on that assumption. Such foresight was sure to pay dividends. Today, when many companies face several months of retooling, the job of converting the Borg factories to the war effort is, for all practical purposes, complete. The company will continue to make a small amount of essential farm equipment, auto replacement parts and low priced refrigerators for defense housing, but this will not engage over 15 per cent of facilities. By mid-year Borg will be devoting around 85 per cent of its effort to the production of military equipment. Taxes may threaten earnings and dividends. But from the vital standpoint of getting to work on its huge backlog of war orders, Borg-Warner is already set to do its part.

Borg-Warner's present backlog of unfilled Army and Navy prime and subcontracts is understood to be approximately \$100,000,000, with further additions expected as the military program gains momentum. Of this, over \$13,000,000 represents orders for various types of ordnance held by the Norge division, which normally makes refrigerators, electric stoves and ranges, washers and various other household appliances, but was converted to defense in 1941 and now, with the exception of a few cheap ice-boxes, is engaged wholly in the war effort.

The important auto parts division, which in 1940 accounted for 55 per cent of sales, also has a substantial war backlog. As might be expected, conversion of this division was a relatively easy matter. Equipment formerly used in the manufacture of universal joints, clutches, carburetors and transmission gears for pleasure cars and trucks has simply been turned over to the making of the same type of item for Army tanks, trucks and jeep cars. Likewise the chemical and aircraft parts divisions are fully committed to the war program. Both these divisions are rapidly growing in importance. The former, established experimentally in 1935, is now on an operating basis and the latter, which was responsible for only 6 per cent of sales in 1940, has substantial orders

for pumps and other airplane parts. The farm equipment division will continue to make farm implements but will also engage in war work.

As the result of its large backlog and present ability to engage all or as much of its facilities as are essential in the manufacture of war implements, Borg-Warner's sales and output will probably reach record heights in 1942.

The 1941 report, which should be published about the last of March, is expected to show net sales of around \$105,000,000 for that year. This would represent the highest level in the company's history. Every indication, however, points to that figure being surpassed by a wide margin this year, unless operations are tied up by strikes or other labor troubles in some of the company's widely scattered plants in Illinois, Indiana, Michigan, Ohio and New York. Plants are largely unionized and if labor remains on the job, sales in 1942 should increase by at least 30 per cent over the previous year. Minimum estimates place the figure at \$135,000,000. Actual results may run 10 per cent or more above that level. Present facilities are adequate to permit an even higher rate of production without additions to plant capacity. Output can, if practical, be stepped up considerably by operat-



ing on a full twenty-four hour basis and with three shifts a day.

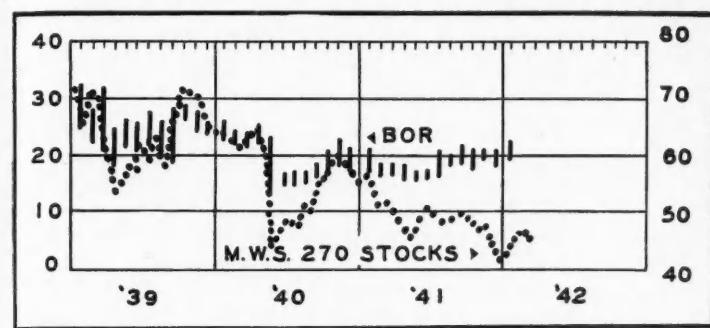
As with all companies engaged in war work, Borg-Warner's great problem is to translate its prospective record sales into a satisfactory rate of earnings. This is not exclusively a question of operating ratios. The management is believed to be satisfied with the profit margins it is obtaining on armaments and to feel that they are reasonably well protected. But like all of American industry, it is faced with vastly higher taxes and with the many uncertainties that inevitably creep into war production.

Except that it cannot avoid the impact of higher taxes,

taxes and special contingency reserves probably closely approximated \$3.25 a share. Net this year will undoubtedly fall below that level. How much it might do so is still largely a matter of guesswork, for estimates cannot be made with any degree of accuracy because of the unknown variation between profit margins on normal and armament work. Actual margins today are probably lower than they are in peace time. At least part of the prospective 30 per cent increase in production will in consequence be employed in compensating for the decrease in operating ratios. Computation of final 1942 results may therefore have to be based on operating income that does not vary greatly from the 1941 level.

Had the new taxes recently proposed by Secretary Morgenthau been in effect in 1941, Borg-Warner's net income would probably have ranged between \$2.00 and \$2.20 a share in that year. Possibly the higher production schedules will permit a modest rise from those levels, but the best guess that can be made at this early date is that 1942 profits will be somewhere between \$2 and \$3 a share. This, however, should be a reasonably satisfactory showing, in view of the position of many industrial concerns.

What effect the probable decline in net income will have on the dividend rate cannot be foretold at this time. On the basis of present evidence the \$2 distributed in 1941 should be covered, but the margin may be thin. Additional uncertainties are injected by the impossibility of being sure of what may happen under war conditions. Present financial resources are adequate to assure satisfactory payments, since net working capital on September amounted to around \$29,900,000, while cash totaled approximately \$18,500,000. So far as can be foreseen there will be no unexpected demands on the company's finances, as no plant expansion or undue capital expenditures are anticipated. Directors will probably try to uphold the reasonably liberal policy of the past, when distributions were made in each year throughout the depression. Yet any guess at what the dividend may be (Please turn to page 672)



the company has a number of factors which should be favorable to the maintenance of good profit margins.

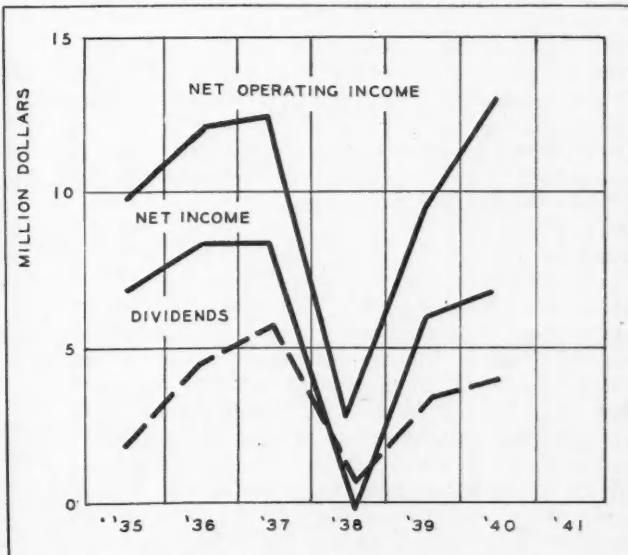
The Norge division, which accounted for approximately 25 per cent of sales in 1940, has been subjected to severe competition in the past and in the past few years has contributed to consolidated net income on a relatively unsatisfactory basis. Now completely converted to war work, with selling and advertising costs greatly reduced and with a good rate of operations assured by its \$13,000,000 backlog of unfilled Army orders, it should reverse the rather unsatisfactory showing of the last few years and should operate in the black for the duration of the emergency.

Other divisions should be subject to quite satisfactory controls of costs. Profit margins on most war contracts, which have been accepted on a negotiated basis, should be well protected, since in each instance they are covered by escalator clauses. Capital costs should remain low, as working capital is adequate and no necessity for borrowing is foreseen. No plant expansion is under contemplation. In contrast to the automobile industry, which has had to store much of its equipment in vacant lots, no large depreciation reserves for idle machinery need to be set up. Expansion of overhead should be of relatively minor nature. Although maintenance will, of course, be higher, any increases in labor costs will be limited to advances in wage scales, since any rise in operating schedules can be accomplished by the addition of more working shifts rather than the payment of overtime.

In spite of these favorable factors, it is doubtful whether higher taxes will permit maintenance of the earnings levels of 1941 and 1940.

Borg-Warner's profits before charges were probably at the best level in the company's history last year. Net income after normal and excess profits

be foretold at this time. On the basis of present evidence the \$2 distributed in 1941 should be covered, but the margin may be thin. Additional uncertainties are injected by the impossibility of being sure of what may happen under war conditions. Present financial resources are adequate to assure satisfactory payments, since net working capital on September amounted to around \$29,900,000, while cash totaled approximately \$18,500,000. So far as can be foreseen there will be no unexpected demands on the company's finances, as no plant expansion or undue capital expenditures are anticipated. Directors will probably try to uphold the reasonably liberal policy of the past, when distributions were made in each year throughout the depression. Yet any guess at what the dividend may be (Please turn to page 672)



Six High Yield Stocks

Showing Superior Market Action

BY STANLEY DEVLIN

Swift & Co.

As is the case with the great majority of American companies, earnings prospects of Swift & Co. are clouded by the threat of higher taxes. The company has an invested capital exemption of around \$2.62 a share, which should provide some cushion against an earnings decline. But, despite prospective record sales, the tax schedules recently proposed by Secretary Morgenthau would reduce net income well below the \$2.90 a share for the fiscal year ended October 28, 1941.

Swift's sales in the 1940-41 fiscal year totaled \$1,018,989,000, topping the 1929 level by a small margin. Earnings also were above 1929. Even larger profits were prevented by the partial adoption of the last-in, first-out inventory policy during the 1941 period, which reduced per share net by about \$1.20. Record sales in 1942 are likely to permit some reduction in unit overhead, but, with price ceilings in effect on certain meat products and costs rising, earnings before taxes should be only moderately higher at best. The new inventory policy, however, should permit the building up of additional reserves against a post-war depression.

Swift & Co.'s past record is one of the most stable in the meat packing industry. The capitalization, consisting of \$23,750,000 funded debt and 5,921,761 shares of common stock, provides only moderate leverage for the equity, despite the relatively high ratio of sales to invested capital. Primary consideration has been given to the maintenance of a sound financial condition and liquid resources are characteristically ample. The dividend policy has been generous and, in spite of the prospective decline in earnings, the regular rate of \$1.20 a share will probably be maintained.

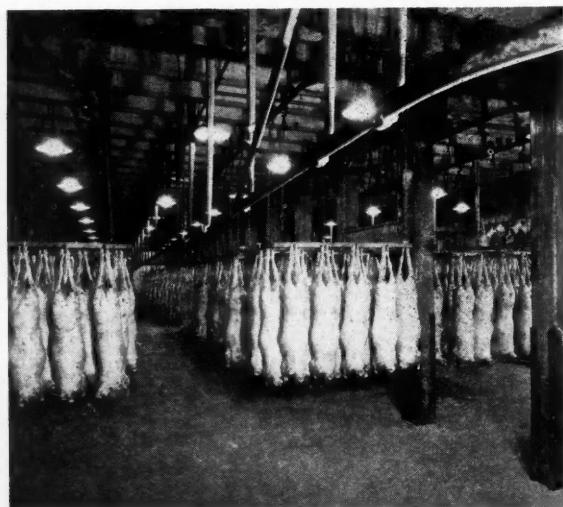
Loew's

Unlike many of the leading integrated companies in the motion picture industry, which appear to have reached a plateau of operations, Loew's has shown a consistent growth record since emerging from the depression. The company has demonstrated unusual ability to judge public tastes, has concentrated on a high quality of film output and has kept its expansion program in bounds. Sales have exceeded the 1929 level in each year since 1936. Profits were shown throughout the depression and dividends were paid in each year. This

record should now stand the company in good stead.

All indications point to record attendance for the motion picture industry in 1942. The curtailment of other means of recreation is expected to send more people to the theatres and it is estimated that box office receipts may surpass 1941 by as much as 15 per cent. Applying this ratio to Loew's would mean gross of around \$147,300,000 for the fiscal year ending August 31, 1942, as compared with \$128,900,000 for the 1940-41 period. Despite higher taxes, the company should be able to carry a good portion of the increase through to net. A preview of its ability to do so was furnished in the twelve weeks ended November 20, 1941, when net increased 36 per cent after contingency reserves of \$1,000,000 and a rise of 136 per cent in taxes. For the year ended August 31, 1941, net income was equal to \$6.15 a share.

Loew's is one of the five leading companies in the motion picture field. Studios are located in Culver City, California, and in Paris and Barcelona. Distribution is effected through Metro-Goldwyn-Mayer. Through subsidiaries the company is engaged in broadcasting, the publication of sheet music and the conduct of vaudeville. An indirect interest is owned in Gaumont-British Picture Corp., Ltd., which produces and distributes pictures in the British Isles. Dividends of \$3 a share were



paid in 1941. At its recent price of 39 the stock provides a yield of 7.6 per cent.

Lone Star Cement

The most important factor in the intermediate term outlook for Lone Star Cement is the record volume of construction work which will be undertaken under the stimulation of the United States war effort. Aided by the defense program, Lone Star's sales last year reached a new record high of \$30,782,096, a gain of approximately 36 per cent over 1940, but this level is due to be exceeded by a substantial margin in 1942, in line with the expansion of the government's program for the construction of cantonments, bases and other military needs. Additional business should be received by the Latin American subsidiaries, which should benefit from the assistance given by this country to the road building, plant construction and defense plans of Brazil, Cuba and Uruguay.

Whether the rise in sales will be equaled by record earnings and dividends is doubtful. It is impossible to estimate net for 1942 at this early date; nevertheless the relatively high invested capital base should ease the company's tax burden and permit satisfactory results. Net income before foreign exchange adjustments was equal to \$4.30 a share in 1941, as compared with \$3.57 in the previous year. Dividends, as in the past, should closely approximate earnings. Distributions in 1941 totaled \$4 a share, equalling the record payments of 1929 and 1930.

Other factors favoring Lone Star Cement are the good dispersion of the company's plants with respect to major domestic industrial and consuming areas, and the low operating and distribution costs. These have contributed to the past stable earnings record and, with price competition largely eliminated for the duration of the emergency, should permit well maintained profit margins today. Some minor additions to net may be derived from foreign exchange operations, profits from this source in 1940 having amounted to 12 cents a share. Finances are strong and the retirement of funded debt in 1935 and 1936 has placed the equity in position to receive the full benefits of any expansion in earnings. The shares, which have a good market following, recently sold around \$37.

Phelps Dodge Corporation

War-time prospects of Phelps Dodge Corporation are considerably enhanced by the substantial increases in primary productive capacity already completed or now under way. After five years of development work costing an estimated \$34,000,000, the new open-pit copper mine at Morenci, Arizona, was opened on January 30. By March 31 output of the new properties should reach full scheduled capacity of around 75,000 tons of copper a year. Additional output of about 60,000 tons of copper a year will be possible with the completion of the \$28,000,000 Defense Plant Corporation project early in 1942. Together the two new units should permit an increase in production of around 77 per cent.

The extent to which Phelps Dodge will benefit from its increased capacity will depend largely on the Revenue



Act of 1942. Last year production is estimated to have been in the neighborhood of 175,000 tons, or practical capacity before the opening of the new properties. At this level the company is believed to have earned around \$2.80 a share. On the basis of present taxes the additional tonnage to be produced at the new mine, together with greater output at the Bisbee and United Verde properties, which were placed on a seven-day basis in December, should permit a rise in net which, despite higher costs, might run as high as \$1 a share this year. The chief question in the attainment of such an earnings level is the treatment of depletion under the newly proposed tax laws. If depletion charges must be lowered, net available for taxes will, of course, be larger. The effect of taxes cannot be calculated, since depletion charges are not known.

Phelps Dodge is the second largest domestic producer of copper, with an estimated pre-expansion mining capacity of 350,000,000 pounds of copper annually and a smelting capacity of 520,000,000 pounds. Unlike the other leading companies it has almost no foreign interests. In addition to copper, considerable amounts of gold and silver are mined, 1940 output of these two metals having been 128,455 and 4,554,979 ounces respectively. Costs are low and the company can operate profitably at relatively poor prices. The capital structure is reasonably conservative, consisting of \$15,331,900 debentures and 5,071,260 shares of \$25 par capital stock. Finances are strong, the ratio of current assets to liabilities on December 31, 1941, having been 4 to 1. The stock, aided by a favorable growth trend, usually sells at a relatively high price-earnings ratio. The shares recently sold at 29, against a 1941-42 range of 35 $\frac{1}{2}$, 23 $\frac{3}{8}$.

National Oil Products

As an important factor in the vitamin field, National Oil Products is a substantial beneficiary of the national campaign to stimulate the consumption of more healthful foods. The company makes a wide variety of animal, vegetable, fish and mineral oils which are used not only in vitamin products, but also in animal foods, cosmetics and the chemical, textile, (Please turn to page 675)

FOR PROFIT AND INCOME

Twentieth Century-Fox Film

Concrete evidence of the marked improvement which has taken place in the position of leading motion picture producers is offered by the recent announcement of a 25-cent dividend to common stockholders of Twentieth Century-Fox Film. This marked the first disbursement on the issue since June 30, 1939. The company's report for 1941 has not been issued as yet but it is expected that profits for the year will be well over \$1.50 a share for the common stock. In 1940, the company reported a deficit. For the 39 weeks to September 27, last, net profit was equal to 30 cents a share on the common stock, after preferred dividends. Earnings in the final quarter were augmented by a dividend of \$693,000 received from the company's 42% interest in the National Theater chain, and approximately \$1,500,000 received from British interests. The company is due to receive another installment from Great Britain on account of blocked profits on April 1, next. Previously all of these funds had been charged off against operating income and the manner in which they will now be handled will obviously have a considerable bearing on per-share results. Attendance at motion picture theaters continues at record levels and with producing facilities on a more efficient basis there is every likelihood that the company's earnings will record further important gains over the coming months even in the face of higher taxes. The motion picture industry is one industry which has

little to fear from shortages, priorities, etc., and the OPA has officially disavowed any intention of fixing either admission prices or film rentals.

Steel Merger

Formal announcement has been made of the merger of Jones & Laughlin and Otis Steel. Jones & Laughlin will assume all of the liabilities of Otis Steel, including some \$13,000,000 4 1/2% first mortgage bonds, and will issue to Otis 34,299 shares of 5% convertible preferred stock, 366,306 shares of common stock and \$916,536 in cash. As a result of this merger Jones & Laughlin will strengthen materially its position as fourth largest steel producer. Moreover, it will have the effect of correcting a fundamental competitive weakness resulting from the fact that facilities of Jones & Laughlin are concentrated in the Pittsburgh district, whereas the company's principal competitors had facilities located in two or more strategic areas. The acquisition of Otis will give J. & L. a shipping and operating point in the impor-

tant Cleveland district. Last year J. & L. established new high record in the production of steel ingots, iron ore, coal, coke, pig iron and finished rolled products. Operations averaged 99% of capacity. Net profit totaled \$16,274,983 and was equal, after preferred dividends, to \$10.85 a share for the common stock compared with net \$10,277,029, or \$10.77 a share on a smaller number of shares outstanding in 1940.

Attractive Bonds

The Utah Power & Light 5's 1944, recently quoted around 99, qualify as a sound medium grade utility investment. The indicated yield of better than 5% is somewhat better than average for this grade of bond, particularly in view of the comparatively early maturity date. There is scant basis for anticipating any difficulty in refunding the bonds at their maturity, and in the meantime they may be expected to show a relatively high degree of market stability. The company is an operating utility providing electric light and power services in a territory embracing northern Utah, southeastern Idaho and southwestern Wyoming.



Steel industry set new records in 1941. Capacity was increased 4,418,000 tons; payrolls totaled \$1,301,000,000; and production of finished steels was the largest in history.

A subsidiary, Western Colorado Power provides the same services in southwestern Colorado, while another subsidiary operates transportation facilities in Salt Lake City. Last year the company earned total fixed charges slightly better than twice, while the average for the past five years has been better than 1.5 times. In addition the company has outstanding an issue of 6% debentures due in 2022. These are quoted around 95 and for the investor able to forego something in the way of quality and stability, the debentures offer rather liberal compensation on an income basis.

Taxes—And How

Everyone will concede that the war has to be paid for. Nevertheless, stockholders of Crane Co. (valves and plumbing materials), must have been surprised and chagrined when the extent of the company's share of the tax bill was revealed in the annual report. Last year the company's sales were up \$50,000,000 and operating profit, before taxes was in excess of \$20,000,000, three times the figure for 1940. Taxes, however, amounted to \$12,500,000, just about \$11,000,000 more than the company paid in 1940. In addition a contingency reserve of \$4,000,000 was set up out of earnings last year. As a result net profit totaled only \$3,727,818 compared to \$5,134,850 the previous year. Out of every \$1 of income last year, Crane paid 11.3 cent in taxes, 25.6 cents in wages and 2.4 cents to stockholders. The tax collector's share will be even larger this year and stockholders can count themselves fortunate if they do as well as they did in 1941.

Air Mail Rates

American Airlines faces a sharply reduced rate of compensation for air mail beginning April 1, according to ruling handed down by Civil Aeronautics Board. In addition C.A.B. ruled that the company had been overpaid \$8,815,856 by the Federal Government during the period covered from December 1, 1939 to November 30, 1941. This liability, however, will be reduced to about \$2,700,000 when allowance is made for taxes paid on the excess revenues. Beginning April 1, the company will

Late 1941 Earnings Reports of Representative Companies

Company	Earned Per Share		Dividends	
	Common	1941	1940	Paid
American Rolling Mill		3.21	1.96	1.40
Allied Chem. & Dye		9.67	9.43	8.00
Abbott Laboratories		2.90	2.89	2.15
Borden Co.		1.88	1.72	1.40
Beech-Nut Packing		6.19	6.61	6.00
Bristol-Myers		3.56	3.73	2.55
Cleveland Graphite Bronze		4.27	4.10	2.00
Chicago Pneumatic Tool		6.15	3.01	2.00
Climax Molybdenum		3.55	2.40	3.20
Coca-Cola		6.78	6.77	5.00
Eastman Kodak		8.57	7.98	6.00
Melville Shoe		2.64	2.96	2.25
National Dairy Pdts.		1.97	1.66	0.80
Newport News Shipbuilding		6.11	4.97	2.50
Phelps Dodge		2.80	2.49	1.50
Phillips Petroleum		3.92	2.61	2.25
Pepsi-Cola		4.93	...	2.50
Standard Oil of Ohio		7.47	7.44	2.25
Studebaker Corp.		1.12	0.96	None
Stewart-Warner		1.30	1.18	0.50
Union Tank Car		2.03	2.21	2.00
Wm. Wrigley Jr. Co.		4.12	4.19	4.00
Westinghouse Elec. & Mfg.		7.21	7.10	5.00
Worthington Pump & Mach.		8.42	6.20	None

receive mail pay at the rate of 12 cents a mile on schedules not in excess of 35,000 miles daily. During the past two or three years American Airlines has averaged slightly over 30 cents a mile in mail pay, the new rate, according to C.A.B., will result in an estimated return of 9.86 per cent, after taxes, on the company's investment. Of particular interest was the comment by the board that the company had virtually attained complete independence of Government subsidy, with better than 98 per cent of operating expenses covered by non-mail revenues. Other air lines may face similar reductions.

Industrial Preferreds

The recent action of U. S. Rubber directors in deferring dividends on the company's 8% preferred stock has apparently made investors unduly wary of high-yielding industrial preferred issues. It is true, of course, that most of these issues involve something more than an average degree of investment risk in return for the generous yield, but it is not unlikely that the actual risk is much more apparent than real. Many of these issues might be considered

to advantage for replacing common stocks where dividends would be vulnerable to higher taxes. Moreover, the circumstances in connection with U. S. Rubber action were somewhat unusual. Dividends on the company's 8% preferred stock are non-cumulative, and are payable only out of current earnings. Quite possibly dividends may be restored later when it is possible to obtain a clearer picture of current operations. Among some of the more attractive industrial preferreds may be included the following:

Issue	Price	Yield %
Goodyear Tire 5%	65	7.69
International Paper 5%	57	8.77
Crucible Steel 5%	75	6.67
Chicago Pneumatic Tool \$3	98	7.89
Sharp & Dohme \$3.50	57	6.14
B. F. Goodrich \$5	57	8.77
American Car & Fdry. 7%	70	10.0

So They Say

Deliveries of war materials by General Motors in the first quarter will show an increase of 50%. . . . Earnings of Socony-Vacuum for 1941 are estimated between \$1.35 and \$1.45 a share. . . . The substantial increase in the dollar volume of retail sales is illusionary and is ac-

(Please turn to page 677)

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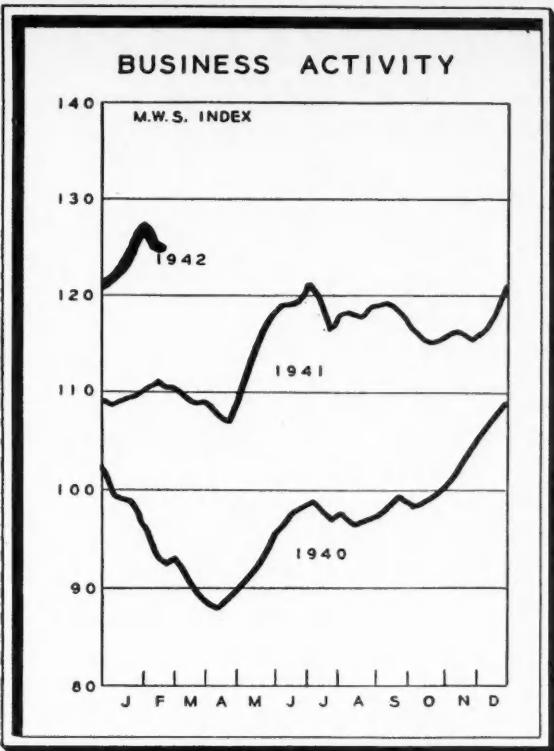
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CONCLUSIONS

INDUSTRY—Tax boost this year may still permit moderate rise in total corporate profits; though some concerns will be hard hit.

TRADE—Merchants specializing in consumer durable goods may close shop when present stocks are exhausted.

COMMODITIES—Prices more in narrow range, awaiting Congressional developments on farm bill.

MONEY AND CREDIT—Commercial borrowings at twelve-year peak. New restrictions on installment sales.

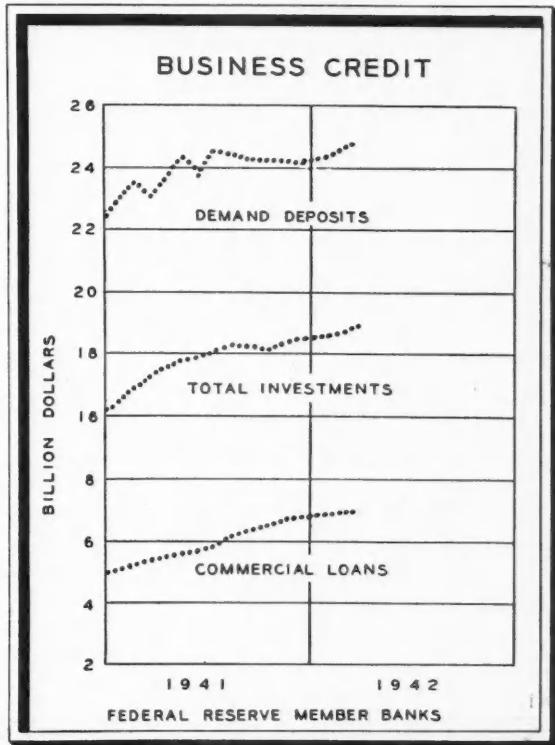
The Business Analyst

Less than normal seasonal gains in check payments and steel operations are mainly responsible for a further recession of about a point in per capita **Business Activity** since our last issue; but February as a whole, despite a receding trend, averaged about the same as January and showed a 13% increase over February, 1941. **War Expenditures** in February totaled \$2.2 billion (about 25% of the national income), nearly four times the outlay in February last year and a hundred million ahead of January which had three more days. Total defense-war cost from July 1, 1940, to date has been \$18 billion. Outlay for remainder of current fiscal year is expected to approximate \$11.6 billion and to achieve a monthly rate of at least \$4 billion by December.

* * *

Secretary Morgenthau's proposal to lift corporate **taxes** by 50%, even if approved by Congress, carries little if any threat to total business **profits**; though concerns which can expand sales and raise prices will fare better than others less favorably situated. Tax Adviser Paul estimates that taxable corporate income this year will be \$18.2 billion, leaving \$8 billion in net income after paying \$10.2 in taxes at the higher rates. Last year's total corporate net income was \$7.2 billion, after

(please turn to following page)



Business and Industry

	Date	Latest Month	Previous Month	Last Year	PRESENT POSITION AND OUTLOOK
INDUSTRIAL PRODUCTION (a)	Feb.	173	171	144	
INDEX OF PRODUCTION AND TRADE (b)	Jan.	112	110	103	
Production	Jan.	119	118	106	
Durable Goods	Jan.	123	123	110	
Non-durable Goods	Jan.	115	114	103	
Primary Distribution	Jan.	103	104	95	
Distribution to Consumers	Jan.	103	97	102	
Miscellaneous Services	Jan.	104	108	97	
WHOLESALE PRICES (h)	Jan.	96.0	93.6	80.8	
INVENTORIES (n. i. c. b.)	Nov.	156.9	154.3	124.3	
Inventories	Nov.	237	237	213	
New Orders	Nov.	201	206	150	
Shipments					
COST OF LIVING (d)					
All Items	Jan.	94.5	93.2	86.0	
Food	Jan.	95.2	92.6	78.7	
Housing	Jan.	90.1	89.9	87.6	
Clothing	Jan.	82.4	80.1	73.0	
Fuel and Light	Jan.	90.4	90.3	86.4	
Sundries	Jan.	102.5	102.8	102.2	
Purchasing Value of Dollar	Jan.	107.5	107.1	115	
NATIONAL INCOME (cm)†	Jan.	8,143	9,080	6,695	
CASH FARM INCOME†					
Farm Marketing	Jan.	986	1,151	670	
Including Gov't Payments	Jan.	1,097	1,235	754	
Total, First 11 Months	1941	11,771	.....	9,097	
Prices Received by Farmers (ee)	Jan.	149	143	104	
Prices Paid by Farmers (ee)	Jan.	146	143	123	
Ratio: Prices Received to Prices Paid (ee)	Jan.	102	99	81	
FACTORY EMPLOYMENT (f)					
Durable Goods	Jan.	143.8	144.3	118.3	
Non-durable Goods	Jan.	121.7	124.7	112.7	
FACTORY PAYROLLS (f)	Jan.	173.2	170.2	120.7	
RETAIL TRADE					
Department Store Sales (f)	Feb.	125	138	103	
Chain Store Sales (g)	Jan.	164	157	124	
Variety Store Sales (g)	Jan.	164	160	126	
Rural Retail Sales (i)	Jan.	180	187	146	
Retail Prices (s) as of	Jan.	108.3	107.5	93.9	
FOREIGN TRADE					
Merchandise Exports†	Dec.	\$652	\$491	\$322	
Cumulative year's total† to	Dec. 31	\$5,144	.....	\$4,025	
Merchandise Imports†	Dec. 31	344	281	254	
Cumulative year's total† to	Dec. 31	3,346	.....	2,626	
RAILROAD EARNINGS					
Total Operating Revenues*	Dec.	\$479,560	.....	\$381,937	
Total Operating Expenditures*	Dec.	352,532	.....	266,149	
Taxes*	Dec.	33,606	.....	26,809	
Net Rwy. Operating Income*	Dec.	80,549	.....	78,851	
Operating Ratio %	Dec.	73.51	.....	69.68	
BUILDING Contract Awards (k)					
F. H. A. Mortgages	Feb.	\$434	\$317	\$270	
Selected for Appraisal†	Dec.	14	73	17	
Accepted for Insurance†	Dec.	12	56	13	
Premium Paying†	Dec.	19	77	18	
Building Permits (c)					
214 Cities†	Feb.	80	59	80	
New York City†	Feb.	8	3	14	
Total, U. S.†	Feb.	88	62	94	
Engineering Contracts (En)†	Feb.	\$635	\$629	\$424	

(Continued from page 663)

deduction of \$7.1 billion for taxes. In 1940 total corporate profits were \$5.5 billion after taxes of \$2.9 billion. A compilation by the National City Bank shows that, while income and excess profits taxes paid last year by 110 large manufacturing corporations increased 151% over 1940, gross sales rose 35%, net before taxes jumped 59%, and net after taxes gained 11%. A larger group of 825 manufacturing companies showed a total increase of 23.7% in profits, while (according to the Department of Commerce) all corporate profits rose 31%. This shows that smaller concerns are experiencing greater percentage gains in profits than big business.

* * *

Income payments in January amounted to \$8.14 billions, a gain of 21.7% over last year. Payrolls were up 23%, but interest and dividend payments rose only 3%. Farm income increased 47%. Seasonal influences caused a decline of 1,235,000 in non-agricultural employment between Dec. 15 and Jan. 15; but factory payrolls were up 2% in the thirty-day interval.

* * *

Total retail sales during January came to \$4.2 billion, an increase of 16% over last year, with durable goods down 21% and non-durables up 28%. Since retail prices also averaged 16% higher, there was no increase in the physical quantity of goods sold; so that the average family found it necessary in January to spend \$15 a month more to maintain the same living standards as a year earlier. To meet the continued panicky demand for goods in which shortages are feared, not a few retailers are disposing of inventories which cannot be replaced, while planning to close shop when their shelves are empty. Department store sales for the year to date are 27% above last year. January wholesale sales were 37% ahead of the like month in 1941. Exports last year, including lease-lend, were valued at 5.14 billion—28% above the like period a year earlier, against a jump of 102% for December alone. In unit quantity 1941 exports were the largest on record and 20% ahead of 1940. Imports last year amounted to \$3.34 billion—27% above 1940 in value and 19% greater in quantity. December imports were 45% above December, 1940, in value.

* * *

Passenger and freight rate advances recently granted by the I. C. C. are expected by the Commission to produce \$348 million more revenue (against \$360 million sought by the carriers) on the basis of 1941 traffic, and an additional \$275 million if 1942 traffic increases 10% as expected. 1942 profits will probably top last year's \$500 million even with adoption of Treasury proposal to boost normal plus surtax rate to 55% from last year's 31%.

* * *

Construction contracts awarded during January in 37 states east of the Rockies were 3.6% above last year in value, with unit costs averaging 6% higher.

	Date	Latest Month	Previous Month	Last Year	PRESENT POSITION AND OUTLOOK
STEEL					
Ingot Production in tons*.....	Feb.	6,525	7,129	6,238	
Pig Iron Production in tons*.....	Feb.	4,458	4,971	4,198	
Shipments, U. S. Steel in tons*.....	Feb.	1,617	1,739	1,548	
AUTOMOBILES					
Production					
Factory Sales.....	1941	5,108,992	.....	4,692,338	
Registrations					
Passenger Cars, U. S. (p).....	Dec.	174,188	163,126	334,073	
Trucks, U. S. (p).....	Dec.	41,006	35,985	51,095	
PAPER (Newsprint)					
Production, U. S. & Canada* (tons).....	Jan.	397	383	383	
Shipments, U. S. & Canada* (tons).....	Jan.	372	405	377	
Mill Stocks, U. S. & Canada* (tons).....	Jan. 31	155	131	189	
LIQUOR (Whisky)					
Production, Gals. *.....	Dec.	13,632	11,828	12,316	
Withdrawn, Gals. *.....	Dec.	6,832	8,143	1,649	
Stocks, Gals. *.....	Dec. 31	511,211	505,557	479,102	
GENERAL					
Paperboard, new orders (st).....	Jan.	581,502	521,866	520,931	
Machine Tool Output (millions of \$).....	Jan.	85	85	51	
Railway Equipment Orders (Ry).....					
Locomotives.....	Jan.	25	63	165	
Freight Cars.....	Jan.	8,479	1,519	11,669	
Passenger Cars.....	Jan.	.....	.....	38	
Cigarette Production†.....	Jan.	19,503	16,201	16,269	
Bituminous Coal Production* (tons).....	Feb.	43,840	48,540	41,695	
Portland Cement Shipments* (bbls.).....	Jan.	9,120	11,511	7,984	
Commercial Failures (c).....	Dec.	898	842	1,086	

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago	PRESENT POSITION AND OUTLOOK
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25=100.....	Mar. 7	122.3	123.6	108.7	
ELECTRIC POWER OUTPUT					
K. W. H.†.....	Mar. 7	3,392	3,410	3,005	
TRANSPORTATION					
Carloadings, total.....	Mar. 7	770,697	781,419	741,922	
Grain.....	Mar. 7	38,356	37,351	31,113	
Coal.....	Mar. 7	145,373	162,500	158,936	
Forest Products.....	Mar. 7	43,137	45,328	38,375	
Manufacturing & Miscellaneous.....	Mar. 7	357,518	354,920	317,953	
L. C. L. Mdse.....	Mar. 7	148,519	143,542	158,910	
STEEL PRICES					
Pig Iron \$ per ton (m).....	Mar. 10	23.61	23.61	23.45	
Scrap \$ per ton (m).....	Feb. 24	19.17	19.17	20.33	
Finished c per lb. (m).....	Feb. 24	2.305	2.305	2.305	
STEEL OPERATIONS					
% of Capacity week ended (m)	Mar. 12	96.5	95.5	99.0	
PETROLEUM					
Average Daily Production bbls.*.....	Mar. 7	3,934	4,016	3,633	
Crude Runs to Stills Avge. bbls.*.....	Mar. 7	3,530	3,675	3,499	
Total Gasoline Stocks bbls.*.....	Mar. 7	106,668	105,635	96,075	
Fuel Oil Stocks bbls.*.....	Mar. 7	87,531	88,285	95,836	
Crude—Mid-Cont. \$ per bbl.....	Mar. 14	1.17	1.17	1.02	
Crude—Pennsylvania \$ per bbl.....	Mar. 14	2.23	2.23	1.78	
Gasoline—Refinery \$ per gal.....	Mar. 14	.083	.083	.05%	

*Millions. *—Thousands. (a)—Index Federal Reserve 1935-39=100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923=100. (e)—Dept. of Agric., 1924-29=100. (ee)—Dept. of Agric., 1909-14=100. (En)—Engineering News-Record. (f)—1923-25=100. (g)—Chain Store Age 1919-31=100. (h)—U. S. B. L. S. 1926=100. (i)—Adjusted—1929-31=100. (k)—F. W. Dodge Corp., (m)—Iron Age. (n)—1926=100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39=100. (p)—Polk estimates. (pc)—Per Cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry.)—Railway Age. (s)—Fairchild Index, Dec., 1930=100. (st.)—Short tons.

Conversion of automobile industry to war work is being hampered by delays in awarding firm orders and by constant changing of specifications. Many auto dealers are going into other fields of activity while retaining their franchises. Chrysler and General Motors are offering to repurchase new cars from their dealers on request. 1940-I model used cars with good tires are now bringing original retail prices if in good condition.

* * *

Whiskey production in January was slightly below last year; but withdrawals were up 30% and inventories rose 6%. Despite expanding sales and cost reduction through elimination of foil wrapping, cigarette manufacturing profits will be reduced this year by higher taxes and leaf costs unless OPA decides to reconsider its recent ban on price advances. Tobacco industry's profits last year were 9% below 1940.

* * *

February production of freight cars numbered 7,812 (including 1,643 in railroad shops), against only 6,150 (including 1,863 in railroad shops) during January. Material shortages may prevent completion of 130,000 new freight cars needed during last eight months of 1942. Railroad equipment companies earned 65% more last year after taxes than in 1940.

Owing to lengthening days and changeovers to war work, margin of increase in electric power output over last year has narrowed to 13%. Congress will not suspend utility holding company death sentence, contending that the SEC already has discretionary power in the matter. Higher surtaxes will hit profits and may force the industry to seek higher rates.

* * *

Steel operations have risen to a new all-time high despite scrap shortage. WPB plans expansion in manganese production from domestic low grade ores to above 600,000 tons yearly, against 40,000 tons last year. Industry is gaining much in efficiency through standardization of products, specialization by individual mills and elimination of special-order steels. Iron and steel industry's profits last year were 13% above 1940.

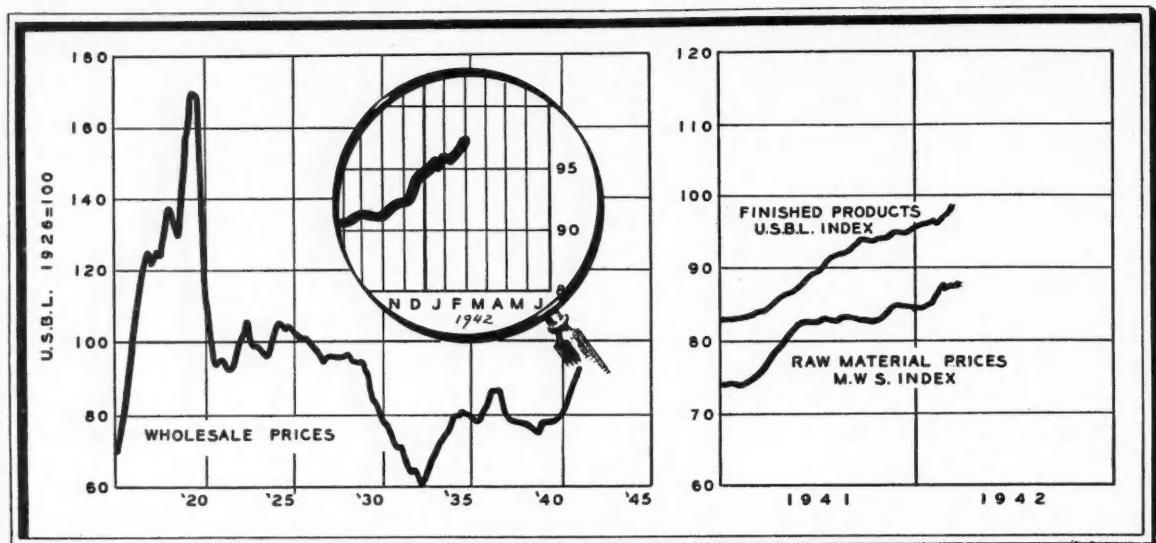
* * *

Falling supply and demand along the Atlantic seaboard is eating into the oil industry's profits, particularly of companies serving that region which normally consumes 40% of the nation's gasoline and 45% of its fuel and heating oil. Crude output is being curtailed and prices of oil products are receding. The industry's profits last year, however, were 59% above 1940. Oil well drillings this year will be confined largely to unproved areas, with a 40% drop from last year in total number drilled.

Trend of Commodities

The past fortnight brought no significant change in the general aspect of the principal commodity markets. Interest in farm commodities was dominated by Congressional developments, highlighted by the combined pleas of the President, Vice-President, and Secretary of Agriculture enlisting farmers' aid and cooperation to prevent inflationary price rises. Congress, on the other hand, paid scant heed and the House passed legislation which would, if enacted, prevent the Commodity Credit Corporation from selling

surplus stocks at prices lower than parity. The latter action provided the impetus for a sharp recovery in the prices of principal grains, following general weakness. It is not, however, assured by any means that this legislation will get sufficient Senate support and, if it does, it faces a possible Presidential veto. Meanwhile, it is becoming evident that supplies of many vital commodities will become more and more restricted as a consequence of ever increasing military needs and the growing shortage of cargo space.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES Spot Market Prices—August, 1939, equal 100

	Mar. 6	Mar. 13		Mar. 6	Mar. 13
28 Basic Commodities	166.1	166.1	Domestic Agricultural	181.8	181.9
Import Commodities	162.1	162.6	Foodstuffs	183.5	183.4
Domestic Commodities	168.7	168.4	Raw Industrial	154.0	154.0

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago	PRESENT POSITION AND OUTLOOK
COTTON					
Price cents per pound, closing					
March.....	Mar. 14	18.48	18.36	.....
May.....	Mar. 14	18.58	18.52	10.83	
Spot.....	Mar. 14	20.24	20.15	11.10	
(In bales 000's)					
Consumption, U. S.....	Jan.	946	887	845	
Exports (Ex-Linters).....	Oct.	161,668	189,215	.....
Imports (Ex-Linters).....	Oct.	40,696	25,134	.....
Government Crop Est.....	Dec. 1	10,976	.....	12,686(ac)	
Active Spindles (000's).....	Feb.	11,364	10,540	9,901	
WHEAT					
Price cents per bu. Chi. closing					
May.....	Mar. 14	130 1/8	129 3/8	86 1/8	
July.....	Mar. 14	132	131 1/8	82 3/8	
Gov't Crop Est. bu. (000's).....	Dec. 1	945,937	.....	812,374(ac)	
CORN					
Price cents per bu. Chi. closing					
May.....	Mar. 14	88 1/2	88	62 5/8	
July.....	Mar. 14	91	90	62 3/4	
Gov't Crop Est. bu. (000's).....	Dec. 1	2,672,541	.....	2,460,624(ac)	
Cotton. Consumption of cotton for February was about in line with trade expectations and the fact that the figure was somewhat under the January level reflected nothing more than the fewer days in February. Daily rate of consumption in February set a new record. Prices moved in a narrow range and trading interest was dulled apparently by the generally held conviction that the President will not affix his signature to any legislation which would prevent C. C. C. from disposing of surplus loan stocks.					
* * *					
Wheat. Grain prices fell away sharply following the President's urgent appeal to the farmers, but by the close of the week had recovered all lost ground, apparently on the action of the House in passing legislation which would bar the sale of C. C. C. stocks at prices lower than parity. There was a feeling among traders, however, that a month or more would elapse before the fate of this legislation would become definitely known.					

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago	PRESENT POSITION AND OUTLOOK
COPPER					
Price cents per lb.					
Domestic.....	Mar. 14	12.00	12.00	12.00	
Exports f. a. s. N. Y.....	Mar. 14	11.00	11.00	10.50	
Refined Prod., Domestic.*	Feb.	81,724	90,017	93,654	
Refined Del., Domestic*	Feb.	107,616	130,467	112,819	
Refined Stocks, Domestic*	Feb. 28	77,329	81,371	97,689	
TIN					
Price cents per lb., N. Y.....	Mar. 14	52	52	51 3/8	
Tin Plate, price \$ per box.....	Mar. 14	5.00	5.00	5.00	
World Visible Supply† as of.....	June 30	38,600	40,777	31,869	
U. S. Deliveries†.....	Dec.	7,700	8,355	9,200	
U. S. Visible Supply† as of.....	Dec. 31	3,500	2,186	9,179	
LEAD					
Price cents per lb., N. Y.....	Mar. 14	6.50	6.50	5.65	
U. S. Production*	Dec.	57,181	48,930	61,906	
U. S. Shipments*	Dec.	50,680	45,980	56,755	
Stocks (tons) U. S., as of.....	Dec. 31	20,185	13,671	40,927	
ZINC					
Price cents per lb., St. Louis.....	Mar. 14	8.25	8.25	7.25	
U. S. Production*	Feb.	73,476	79,276	61,603	
U. S. Shipments*	Feb.	74,775	79,413	65,818	
Stocks, U. S., as of*	Feb. 28	22,626	23,925	10,644	
SILK					
Price \$ per lb. Japan xx crack.....	Mar. 14	3.57	3.57	2.70	
Mill Dels. U. S. (bales).....	Nov.	5,676	4,160	36,374	
Visible Stocks U. S. (bales) as of.....	Nov. 30	55,486	57,508	60,330	
RAYON (Yarn)					
Price cents per lb.....	Mar. 14	53	53	53	
Consumption (a).....	Jan.	41.2	39.3	35.0	
Stocks as of (a).....	Jan. 31	4.7	3.8	8.9	
WOOL					
Price cents per lb., raw, fine, Boston.....	Mar. 14	1.07	1.07	96 1/2	
Consumption, period ending (a)....	Dec. 31	51,500	60,600	45,800	
HIDES					
Price cents per lb. No. 1 Packer.....	Mar. 14	15 1/2	15 1/2	13	
Visible Stocks (000's) as of.....	Dec. 31	14,309	14,277	13,998	
Boot and Shoe Production, Pcs. *....	Jan.	39,543	38,255	36,803	
RUBBER					
Price cents per lb.....	Mar. 14	22 1/2	22 1/2	20.75	
Imports, U. S.†.....	Oct.	72,292	83,151	74,716	
Consumption, U. S.†.....	Oct.	60,418	53,655	59,644	
Stocks, U. S., as of.....	Oct. 31	454,711	473,684	235,353	
Tire Production (000's).....	Jan.	1,461	2,967	5,486	
Tire Shipments (000's).....	Jan.	1,231	2,604	4,850	
Tire Inventory (000's) as of.....	Jan. 31	4,643	4,417	9,797	
COCOA					
Price cents per lb.....	Mar. 14	8.55	8.55	6.30	
Arrivals (bags 000's).....	Feb.	79	166	491	
Warehouse Stocks (bags 000's)....	Mar. 6	1,236	.....	1,368	
COFFEE					
Price cents per lb. (c).....	Mar. 14	13 3/8	13 3/8	8 1/2	
Imports, season to (bags 000's)....	Feb.	7,707	.....	10,782	
U. S. Visible Supply (bags 000's)...	Mar. 1	1,750	2,384	2,510	
SUGAR					
Price cents per lb.					
Raw.....	Mar. 14	3.74	3.74	3.30	
Refined (Immediate Shipment)...	Mar. 14	5.45	5.45	4.85	
U. S. Deliveries (000's)*.....	11 mos.	7,360	.....	6,324	
U. S. Stocks (000's)* as of (m)....	Nov. 30	534	713	582	

†Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. *—Thousands. NA—Not available (r. r.)

Copper. Deliveries of refined copper to fabricators in February were 22,800 tons less than in January. This was the smallest volume since November 1940. Stocks of refined copper also declined last month. Domestic production totaled 80,303 tons compared with 88,205 tons in January.

* * *

Tin. Many small packers will be forced to suspend operations as a result of the curb on use of tin for containers. They are not in a position to change facilities to glass containers, even if it were possible to obtain the latter.

* * *

Lead. Demands continue to outrun supply. Lead is being used to substitute for tin, zinc and other metals with the results that available supplies are inadequate. Production this year will attain a new high level.

* * *

Zinc. According to the president of St. Joseph Lead the greatest threat to production of lead and zinc will be the loss of skilled workers to the armed forces. Shortage of labor may become particularly acute in 1943.

* * *

Rayon. Allotments of rayon to hosiery manufacturers for April were increased 15 per cent with a view to partially filling the void in silk and nylon. Ceiling prices have been set on nylon.

* * *

Wool. The Government continues to place huge orders for woolen goods and last week from 10,000,000 to 15,000,000 pounds of wool changed hands in Boston markets. Worsted mills were allotted 600,000 pounds of rayon for March and 1,200,000 pounds for April, indicating the increasing use of rayon in worsted fabrics.

* * *

Hides. The War Production Board has ordered 80 per cent of top grade leather soles to be set aside for the manufacture and repair of military shoes. This will leave 640,000 pairs of top grade leather soles and 4,000,000 outsoles of lower grades for civilian use each month.

* * *

Rubber. It has now been officially admitted that production of synthetic rubber will not attain a volume of 400,000 tons until the end of 1943. Signed contracts thus far account for only 200,000 tons. All patents for the manufacture of synthetic rubber have been pooled with Rubber Reserve Co.

* * *

Cocoa. There have been no shipments of cocoa from Africa in more than five months. Brazil, the other major supply source, has ordered all of its ships into nearest ports, following a series of sinkings. Practically all of the current crop, however, has been sold and delivered.

* * *

Sugar. Supplies on the Atlantic seaboard are inadequate to meet the personal ration of a half pound per week. As a consequence a further curtailment of shipments to wholesalers and industrial users is in prospect for April.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago	COMMENT
INTEREST RATES					
Time Money (60-90 dyas).....	Mar. 14	1 1/4%	1 1/4%	1 1/4%	
Prime Commercial Paper.....	Mar. 14	1 1/2-3 1/4%	1 1/2-3 1/4%	1 1/2-3 1/4%	
Call Money.....	Mar. 14	1%	1%	1%	
Re-discount Rate, N. Y.	Mar. 14	1%	1%	1%	
CREDIT (millions of \$)					
Bank Clearings (outside N. Y.).....	Mar. 7	3,821	.....	3,074	
Cumulative year's total to.....	Feb. 28	33,394	.....	26,873	
Bank Clearings, N. Y.	Mar. 7	3,583	.....	3,112	
Cumulative year's total to.....	Feb. 28	30,443	.....	27,297	
F. R. Member Banks					
Loans and Investments.....	Mar. 4	30,918	30,943	26,668	
Commercial, Agr., Ind. Loans.....	Mar. 4	6,902	6,902	5,287	
Brokers Loans.....	Mar. 4	460	471	502	
Invest. in U. S. Gov'ts.....	Mar. 4	13,151	13,132	10,458	
Invest. in Gov't Gtd. Securities.....	Mar. 4	2,723	2,723	2,774	
Other Securities.....	Mar. 4	3,670	3,696	3,844	
Demand Deposits.....	Mar. 4	24,815	24,712	23,362	
Time Deposits.....	Mar. 4	5,188	5,188	5,470	
New York City Member Banks					
Total Loans and Invest.....	Mar. 11	12,505	12,471	10,892	
Commercial, Ind. & Agr. Loans.....	Mar. 11	2,774	2,734	2,075	
Brokers Loans.....	Mar. 11	328	327	354	
Invest. in U. S. Gov'ts.....	Mar. 11	5,663	5,662	4,636	
Invest. in Gov't Gtd. Securities.....	Mar. 11	1,489	1,495	1,583	
Other Securities.....	Mar. 11	1,440	1,438	1,450	
Demand Deposits.....	Mar. 11	10,633	10,517	11,038	
Time Deposits.....	Mar. 11	711	725	753	
Federal Reserve Banks					
Member Bank Reserve Balance.....	Mar. 11	12,968	12,835	14,211	
Money in Circulation.....	Mar. 11	11,520	11,518	8,811	
Gold Stock.....	Mar. 11	22,709	27,705	22,318	
Treasury Currency.....	Mar. 11	3,271	3,269	3,106	
Treasury Cash.....	Mar. 11	2,176	2,180	2,196	
Excess Reserves.....	Mar. 11	3,270	3,210	6,480	
NEW FINANCING (millions of \$)					
Corporate.....	Feb.	74	170	274	
New Capital.....	Feb.	55	87	47	
Refunding.....	Feb.	20	83	227	

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1942 Indexes				1942 Indexes				
	High	Low	Mar. 7	Mar. 14	High	Low	Mar. 7	Mar. 14	
270 COMBINED AVERAGE.....	48.6	43.9	44.9	44.3	100 HIGH PRICED STOCKS....	51.96	46.97	47.70	46.97t
3 Agricultural Implements.....	82.6	72.7	74.7	75.7	100 LOW PRICED STOCKS....	38.78	33.57	35.16	34.85
9 Aircraft (1927 Cl.—100)....	172.6	146.8	149.0	154.0	3 Liquor (1932 Cl.—100)....	159.9	145.6	145.0	145.6
4 Air Lines (1934 Cl.—100)....	245.0	205.9	209.3	205.9	8 Machinery.....	83.8	75.5	75.5g	75.8
5 Amusements.....	31.7	29.7	29.9	29.7	2 Mail Order.....	53.9	45.5	47.4	45.5g
13 Automobile Accessories....	79.3	70.7	73.7	75.1	4 Meat Packing.....	46.0	36.8	36.8	39.1
13 Automobiles.....	8.8	7.1	8.4	8.3	9 Metals, non-Ferrous.....	129.4	101.9	115.3	111.5
3 Baking (1926 Cl.—100)....	7.1	5.1	5.2	5.4	3 Paper.....	11.3	10.4	10.9	10.4
3 Business Machines.....	94.2	81.7	91.8	98.2	21 Petroleum.....	74.2	63.2	65.2	63.2b
2 Bus Lines (1926 Cl.—100)....	64.6	38.2	53.2	55.9	16 Public Utilities.....	19.1	15.1	16.0	15.1
6 Chemicals.....	156.3	133.5	137.1	133.5b	3 Radio (1927 Cl.—100)....	7.0	5.9	6.3	6.5
14 Construction.....	19.6	17.0	18.9	18.7	7 Railroad Equipment.....	37.9	34.6	34.6	34.7
5 Containers.....	158.8	147.8	150.2	147.8	16 Railroads.....	9.9	7.6	8.9	8.7
8 Copper & Brass.....	73.8	67.7	68.5	67.7	2 Realty.....	1.9	1.3	1.5	1.7
2 Dairy Products.....	27.8	25.8	26.8	26.3	2 Shipbuilding.....	112.0	95.4	95.4b	95.4
6 Department Stores.....	16.3	13.8	13.8b	13.8	12 Steel & Iron.....	65.0	60.7	60.7	61.1
6 Drugs & Toilet Articles....	43.5	37.1	39.3	37.1	2 Sugar.....	40.1	34.2	36.2	34.9
2 Finance Companies.....	114.0	99.5	111.6	102.4	2 Sulphur.....	179.4	156.1	163.7	156.1b
7 Food Brands.....	78.6	63.5	67.5	63.5d	3 Telephone & Telegraph....	36.0	30.6	34.6	32.1
2 Food Stores.....	43.7	39.6	40.0	39.6	2 Textiles.....	34.2	29.3	29.5	29.3c
4 Furniture.....	28.1	24.5	26.3	26.7	3 Tires & Rubber.....	9.3	7.9	8.7	8.6
2 Gold Mining.....	455.2	331.3	386.0	392.3	4 Tobacco.....	55.3	45.2	47.8	45.2m
6 Investment Trusts.....	16.5	15.0	15.4	15.1	2 Variety Stores.....	187.2	159.8	170.6	159.8d
New LOWS since: b—1940; c—1939; d—1938; g—1935; m—1932; t—Nov. 14, 1936.					19 Unclassified (1941 Cl.—100)....	109.9	99.3	99.3	100.2

Answers? to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities*.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Phelps Dodge Corp.

With the new Morenci Mine now in operation, and with demand far exceeding output, is it reasonable to assume that Phelps Dodge's earnings and dividends in 1942 will keep pace with its increased production—especially in view of the 5¢ per pound premium to be paid on production in excess of 1941 quotas? What factors, on the other hand, would tend to dilute such progress? Is the company liable to heavy taxes? What about the efforts of the O.P.A. at establishment of a price ceiling? Does this affect Phelps Dodge adversely? My holdings in this company amount to 150 shares acquired at 33. What do you advise?

—Mr. M. K., Santa Barbara, Calif.

With the coming into production of Phelps Dodge Corp.'s new open pit mine at Morenci, Arizona, following some five years of preliminary development work, it is estimated that the company's capacity has been increased around 44 per cent. The increase in the total producing capacity of the nation amounts to 7.6 per cent, according to present estimates. Operations at the new property began late in January of the current year, and the full capacity rate of 75,000 tons of refined copper annually are expected to be realized by the end of the first quarter. This step-up in our primary copper supply has come at a most auspicious time in view of the growing demand for the red-metal in our war production program. Dividends paid by Phelps Dodge in 1941

totalled \$1.50 a share. Indicative of the high operating rate of the industry and the strong current earnings position of Phelps Dodge in particular, directors voted a payment of 40 cents a share payable on March 10, as compared with 25 cents a share payment made in the first quarter of 1941. Net income for 1941 amounted to \$2.80 a share on the 5,071,260 shares of common stock outstanding, compared with earnings of \$2.49 a share for the full year 1940. The tax bill during the latest year was, of course, materially higher, but this was more than offset by the increase in sales. It is significant to note that the earnings progress made thus far was accomplished in the face of the 12 cents a pound copper price ceiling, while the new capacity recently developed should augment earnings importantly. On the basis of indicated production and profit margins alone, therefore, the earnings position of the company certainly is a promising one. As is true with industry generally, however, the burden of taxes promises to become still

heavier, suggesting that earnings may be stabilized around recent levels. Even so, the stock has much to recommend it at recently prevailing price levels and we believe that it will prove profitable for you to maintain your position in the shares.

International Paper Co.

With the arrears on preferred cleared away—and its mills running at capacity—is the track now cleared for continuing progress for International Paper? Do you consider the common at current market price an attractive speculation? I purchased 100 shares a year ago at 16 1/4. What proportion of the company's production is devoted to newsprint? . . . to kraft? . . . to other products for other purposes? Are prices on all lines being held at a level which will insure profitable operation? How will shortages of chemicals and other paper-making supplies be overcome? Might this necessitate curtailment of certain profitable lines?—Mrs. B. V., Cleveland, Ohio.

With its mills having a capacity second to none, the International Paper Co. is admirably situated to gain maximum benefits from the heavy demand for paper and pulp which has developed since the outbreak of the European war. Formerly we imported considerable quantities of pulp from abroad, but the outbreak of the European war cut off that supply and it became necessary to depend almost wholly upon domestic and Canadian sources. International owns, in addition to its mill capacity, extensive timber lands both in the United States and Canada, the value of which has been measurably improved by the firming price structure which developed following the stoppage of imports from Scandi-

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navia. Since the company is able to supply virtually all of its own mill requirements from owned raw material sources, costs are more readily controlled than might be the case if outside producers had to be depended upon. Normally kraft paper and board constitute the largest production item, although newsprint and other paper specialities also contribute liberally to sales volume. Production of kraft has been actively pushed during recent years in such states as Louisiana, South Carolina, Florida, Alabama, Arkansas and Mississippi, where raw material supplies are obtainable at costs comparing favorably with other sections of this country and Canada. The earnings report for the full year 1941 is not available as this is written, but in the first nine months of the year, the company showed earnings equal to \$4.41 a common share, against \$4.79 earned in the like period of the preceding year. The modest decline in net was accounted for in part by the doubling of depreciation and obsolescent charges, while tax reserves were very nearly tripled. During the period, net sales increased to \$151,758,328, contrasting with \$119,429,906 the year before. The pronounced improvement in the earnings position of the company over the past two years has permitted clearing of all arrears on the \$5 preferred stock, thereby leaving the way open for distributions on the common. Taxes naturally will tend higher and it is doubted if net will increase importantly over recent levels in the face of this heavier burden. Nevertheless, that fact appears liberally discounted in the present prices for the stock and with prospects promising for the payment of a dividend this year, the common shares appear to offer interesting speculative possibilities at recent levels. While the shortage of certain essential chemicals may make difficult the production of some paper types, it should have little effect on aggregate operations and earnings which promise to continue to be favored by sustained volume business.

Mathieson Alkali Works, Inc.

I have been going over my portfolio, with the intention of concentrating on war-favored issues which offer moderately attractive, steady yield, and show reasonable promise of market improvement. In that connection I would appreciate your counsel on my 100 shares of Mathieson Alkali common, bought at 30 last year. What is the status of this company's production-for-defense at this time? Is further expansion of facilities planned, in addition to the magnesium plant? I notice from the annual report that depreciation charges were about equal to net income in 1941—and the same was true in 1940. What is the explanation for this apparently large item? Would you advocate additional purchase at the present market price?

—Mr. T. S., Bronx, N. Y.

Report of Mathieson Alkali Works, Inc., for the year ended December 31, 1941, revealed net income of \$1,742,628, equivalent to \$1.90 a share on the common stock, after preferred requirements. This compares with net earnings of \$1,587,812, equivalent to \$1.72 earned on the common stock in the preceding year. During 1941, the net sales figure stood at \$15,533,667, against \$12,470,934 in 1940 and \$10,967,294 in 1939. Costs and expenses over the past three years have naturally tended higher in line with the increase in sales volume. The item of depreciation, depletion and obsolescence has remained relatively stable, but Federal income and excess profits taxes last year rose to \$1,150,000, against \$529,628 the year before. This increase in taxes was the main factor in limiting the increase in net and indications are that it will continue of major importance at least for the duration of the war. The company is normally a leading producer of alkalis sold to the rayon and paper industries and demand from these sources promises to continue at record levels. In addition, the company is constructing the second largest magnesium metal plant in the country at Lake Charles, La., which it will manage for the Government. This plant is to cost approximately \$16,000,000 to be financed from Government funds, and is to be brought into production late this year. Mathieson owns a large deposit of dolomite and this ore will be ground and mixed with certain by-products to produce magnesium chloride. Through electrolysis magnesium metal and chlorine gas will be made available in considerable volume. Chlorine is being employed in in-

creasing quantities in numerous defense activities and it is expected that Mathieson's production from this Government-owned plant will go a long way toward correcting threatened shortages. With finances in good shape, Mathieson should be able to continue dividends at recent levels and with growth possibilities over the longer term of better than average, the shares should prove a profitable purchase around recent levels.

J. C. Penney Co.

How do you account for the fact that J. C. Penney is now selling at approximately 7 points under its low for 1941, despite the fact that sales have been showing steady growth? Is it because the company—and perhaps also its customers—are hard hit by taxes . . . reducing the earning power of the one, and the spending power of the other? Or does it simply reflect the generally questionable outlook for merchandising stocks? Although Penney stores sell mainly "soft" goods (rather than durable goods, which are subject to priorities) will there be difficulty in obtaining new merchandise? I own 135 shares of this company's stock, for which I paid 78, and would appreciate your advice.—Mr. B. J., Oklahoma City, Okla.

Operating a chain of some 1,500 junior department stores which deal largely in "soft" goods, J. C. Penney Co. does not appear to be vulnerable to priorities to anywhere near the extent which would be the case if it depended to any important degree upon consumer durable goods. It is believed that the company will have little difficulty in meeting customer demands over the months ahead, although there will doubtless be a gradual change in style and fabric trends in line with the war material conservation program. At the date of the last report, the company had inventories on hand of some \$73,722,000, against \$66,623,000 a year before. Relative to sales volume, however, the inventory figure did not appear to be inflated. With taxes on individual incomes destined to reach record level, spending may tend to taper off later this year, despite the indicated further increase in payrolls. Nevertheless, the type of goods handled by Penney promises to continue in excellent demand and with no serious shortages likely to develop, the prospects for volume business remain bright. Probably the principal factor in the stock's recent unimpressive market performance is that of taxes which, in common with indus-

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THE PENNSYLVANIA RAILROAD

SUMMARY OF ANNUAL REPORT FOR 1941

THE 95th Annual Report of the Pennsylvania Railroad Company covering operations for 1941 will be presented to the stockholders at the annual meeting on April 14, 1942. Operating revenues increased \$136,447,755 or 28.6% over 1940. Operating expenses increased \$104,222,597 or 30.8%. Taxes increased \$22,274,360 or 50.8%. Net income was \$52,383,958 an increase of \$11,608,128. Surplus was \$48,414,588, equal to 7.4% (\$3.68 per share) upon the outstanding Capital Stock (par \$50) as compared with 5.6% (\$2.80 per share) in 1940.

OPERATING RESULTS		INCREASES OR DECREASES OVER	
		1941	1940
TOTAL OPERATING REVENUES WERE.....	\$614,041,163	I	\$136,447,755
TOTAL OPERATING EXPENSES WERE.....	442,677,275	I	104,222,597
LEAVING NET REVENUE FROM RAILWAY OPERATIONS OF.....	171,363,888	I	32,225,158
TAXES AMOUNTED TO.....	66,159,548	I	22,274,360
HIRE OF EQUIPMENT AND JOINT FACILITY RENTS WERE.....	8,101,852	D	652,204
LEAVING NET RAILWAY OPERATING INCOME OF.....	97,102,488	I	10,603,002
INCOME FROM INVESTMENTS AND OTHER SOURCES WAS.....	*41,663,095	I	365,787
MAKING GROSS INCOME OF.....	138,765,583	I	10,968,789
FIXED CHARGES, CHIEFLY RENTALS PAID TO LEASED ROADS, AND INTEREST ON THE COMPANY'S DEBT.....	86,381,625	D	639,339
LEAVING NET INCOME OF.....	52,383,958	I	11,608,128
APPROPRIATIONS TO SINKING AND OTHER FUNDS, ETC.....	3,969,370	I	90,205
SURPLUS.....	\$ 48,414,588	I	\$ 11,517,923

*Includes dividend of \$5,000,000 (par value) in securities received from Pennsylvania Co.

Dividends aggregating 4% (\$2.00 per share) were paid during 1941, compared with 3% (\$1.50 per share) in 1940.

The Board takes pleasure in acknowledging the continued efficiency and loyalty of all the employes during this period of great national stress. We know that they will continue to do their full share in meeting the additional heavy responsibilities that have now been placed upon them.

M. W. CLEMENT, President

THE PENNSYLVANIA RAILROAD

SHIP AND TRAVEL VIA PENNSYLVANIA

*Stockholders can obtain copies of the Annual Report from
J. Taney Willcox, Secretary, Broad Street Station Building, Philadelphia, Pa.*

try generally, will tend to reduce earnings available for shareholders. As you know, the company paid a total of \$5 a share dividend last year. Maintenance of that rate naturally will depend upon unpredictable future developments in the company's affairs, but as it looks now no important downward adjustment, if any, should be necessary. Finances have been maintained in excellent shape and the position of the common stock is further aided by the fact that there are no bonds or preferred stocks ahead. In consideration of the past record of the company together with its promising sales outlook, we would see no reason for you to disturb your holdings at present concessions from your cost.

National Cash Register Co.

What is your opinion of National Cash Register . . . its recent performance, earnings trends, and position in our war economy? I have heard conflicting comments about this stock, and am wondering whether I should sell my 125 shares (bought at 15½ in 1940) if it again reaches that price. Or, in view of the earnings gains in 1941, do you advise retention and possible additional purchases? What about the long-term prospects for this company? Has the loss of foreign cash register business been counteracted by other income that can be counted on for the duration of the war?—Mrs. J. V., El Paso, Texas.

Although the report of National Cash Register Co. for the full year 1941 is not available as this is written, it is expected that earnings of around \$2.00 a share will be shown, which would compare with \$1.26 a share earned in 1940. In the report covering the first nine months of 1941, the company showed the equivalent of \$1.56 a share, comparing with 91 cents a share in the first nine months of 1940. In the September quarter alone, earnings per share equalled 75 cents, or over three times the 24 cents a share earned in the like period of 1940. Earnings last year were probably received mainly from regular peace-time domestic customers, but plant has been increasingly diverted to munitions and other government business, the volume of which promises to expand further over coming months. Although the loss of foreign markets following the outbreak of war in Europe was an adverse development from a sales viewpoint, the gain in domestic demand proved an offset. While concentration of facilities on war orders may spell

somewhat lower profit margins and taxes may be expected to take a heavier toll, the relative position of the organization continues reasonably promising. From a longer range viewpoint, moreover, the demand for cash registers and other equipment manufactured should act as a cushion in the post-war adjustment era. Since the rapid growth of government agencies necessitates large installations of accounting machinery of the type produced by National, sales should not be entirely confined to war materials, but the relative importance of the latter promises to be extended. The financial position of the company as of September 30, last, was characteristically strong, with current assets of \$36,991,039 including cash alone of \$4,576,164 comparing with current liabilities of but \$12,955,047. Since there is only \$6,000,000 in 2½ per cent debentures maturing in 1953 preceding the 1,628,000 shares of common stock, the latter's position is strong from a dividend viewpoint. Distribution in 1941 totalled \$1.25 a share as against \$1.00 a share in 1940. A substantial capital investment is of favorable significance insofar as excess profits tax vulnerability is concerned, although the tax bill promises to become increasingly important from the stockholders' standpoint. Nevertheless, present prices for the shares seem to discount to a large extent the adverse tax factor and where one desires a reasonable dividend return, coupled with longer range prospects for market improvement, the stock holds attraction.

Borg-Warner's Strategic Position

(Continued from page 657)

is extremely hazardous. If net in 1942 approximates the higher earnings estimate of \$3 a share, maintenance of the \$2 dividend rate paid in 1941 may probably be regarded as a reasonable assumption. If profits drop to the range of the lower limit of \$2, as is more probable, the amount of the distribution might be reduced, though, in view of past policy, the reduction will in all probability be modest.

Beyond present considerations,

also, and entering into the appraisal of Borg-Warner's long range position, is the relative ease with which the re-conversion to peace time pursuits can be made.

Just as the shift to a war status has been made without serious dislocation of operations and at minimum expense, so the change-over to normal production should be comparatively painless. In this the company should be aided by the work of its research staff. Though the efforts of its laboratories are now directed solely towards raising the standard of the contribution to the armament program, much of the work should prove useful when peace returns.

Perhaps the most difficult problem of re-conversion will be presented by the Norge division, where the first shift proved most difficult and costly. Even here, however, the expense should be comparatively slight.

The change in the auto parts division promises to give no more trouble than the original conversion to the manufacture of carburetors and transmission gears for Army tanks and trucks. Furthermore, the prominent part Borg will play in this type of production during the war will insure its keeping abreast of any new developments in automotive engineering and prepare it adequately for any changes in design that may come later.

Likewise, the experimental and research work done in the past by the chemical division should stand the company in good stead. As an earning unit, this portion of Borg's business has considerable promise for the post-war period. Although its pre-war work was concentrated in the development of waterproof fabrics and paints, its present experience could provide a good background for additional peace-time pursuits.

The company also should be able to play an important part in the peace-time aircraft industry, which falls more within the range of its former normal work. The status of the farm equipment division should, of course, be well maintained.

Everything considered, the war should provide Borg-Warner with an opportunity to strengthen the strong trade position it has built up since its formation in 1928. Admittedly the management is today



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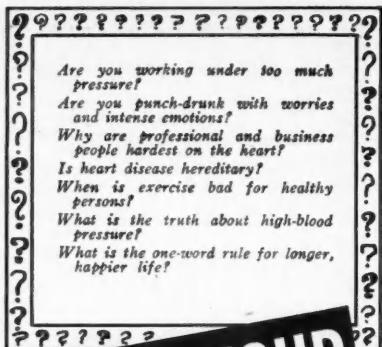
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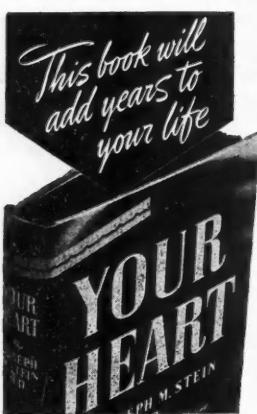


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giving no thought to anything but increasing the efficiency of its contribution to the war effort. But the very nature of its present work provides a background which cannot but be helpful when peace returns.

For many months the stock has held exceptionally well in a weak stock market. In fact, recent price of 22 is but moderately under best 1942 level and compares with range of 21-16 in 1941 and 25 1/8-12 1/8 in 1940. Indicated yield on the basis of present conservative dividend of 40 cents quarterly is nearly 7.3 per cent. There is neither funded debt nor preferred issue ahead of the capital shares.

Gold In the New World Order

(Continued from page 648)

to be doubted that the United States would see any percentage in remaining on a gold standard for the benefit of the German master race.

But if our side wins the war there will surely be a place for some modified form of gold standard, although certainly not the old rigidly automatic system. The tremendous task of post-war economic and political reconstruction must necessarily include restoration also of order in monetary affairs.

Indeed, it is possible that our gold problem in time may in substantial degree solve itself. Don't forget that foreigners have a claim on more than half of this supply. Presumably some day security for capital, as well as peace, will be restored in Europe. And it might be that opportunities for profitable investment in future will attract much increased movement of foreign capital into Argentina, or Mexico or China or some other place. In short, when and if the compelling reasons which brought billions in refugee money here are ended, most of it probably would either move back whence it came or seek, in nations of young economic development, more lucrative investment than is represented by ownership of American securities or American bank balances or dollar currency hoards in safety deposit boxes. In such case, substantial sums of gold would flow out from the U. S.

With the monetary-credit controls

now developed in, or available to, all nations, relatively small amounts of gold would suffice to set all on a modernized gold standard. We could donate the gold or lend it, but that is the least important aspect of the problem and puts the cart before the horse. The strength of any nation is its economic productivity, and gold can not make an economically weak country strong.

Suppose, for instance, Poland is restored as a sovereign nation and the United States undertakes to finance its economic rehabilitation. What Poland would need would be steel, machinery, food, locomotives, etc. We could give the Polish Government gold with which to pay for such purchases from us or from anybody else who would accept gold in payment. But to give Poland gold with which to make purchases of goods from us would be ridiculous. The gold would merely come right back. The same result could be had much more simply by merely granting a dollar credit.

If we make any kind of a loan to post-war Poland, how could it be serviced? There are only two ways. Poland would have to be in a position to obtain sufficient dollar balances from her export trade, or services such as shipping, to service the loans or she would have to get hold of gold with which to pay us. The first alternative requires that Poland's export-import trade be balanced in a manner to make the loan sound—and that is an economic and political problem rather than a gold or monetary problem. Under the second alternative the mal-distribution of gold and our gold problem would be perpetuated.

In the new and free world order that we all desire, we can maintain a large volume of exports only if we more nearly balance it with our imports—or if we go on forever buying more unneeded gold as fast as it is dug from foreign mines for reburial in the U. S.

But international commerce—however important—is really secondary to a more basic matter. The most basic and urgent need of all economically backward countries—and it will also be true of the war-ravaged countries—is capital in the form of the facilities of industrial production: factories, power plants, transportation and communication systems. Again, gold has little or nothing to do with this.

How does a nation get capital in adequate amounts? We got ours—the greatest aggregation of productive capital assets on earth—through the free functioning of the capitalist system, with a minimum of Government “planning.” Our people thrifitly accumulated savings and made productive long-term investments; and foreign capital in large volume, especially in our early stages of development, flowed into long term investment here for purely individualistic, capitalistic reasons: the foreign investors thought the risk not too great and the opportunity attractive.

If we can restore a workable international capitalism—with reasonable freedom of movement of men, materials and money—any nation can get capital provided two conditions are met: (1) an economic potential sufficiently promising to make capital investment attractive to both its nationals and foreign investors; and (2) a political-social set-up under which capitalist investors regard the risks as not too great to take.

Under any other order, whatever you call it, international capital investment or any financing, the assumption of risk therein—and the management of foreign trade—must be socialized. In that case you might just as well call it Communism, Socialism or State Capitalism, and not bother to think up some new order name for it—and in that case governments would have less need for monetary gold than ever before.

The economic fruits of State management to date—both here and in countries where it has gone the limit—do not remotely compare with those obtained in the golden age of free private capitalism in the years before totalitarian wars changed everything.

In short, the real question is not what are we going to do about gold—but whether we can restore an effectively free international capitalism. If we can, we don't need to worry about gold. And if we can't, there will be much more important things to worry about anyway.

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MARCH 21, 1942

Six High Yield Stocks

(Continued from page 659)

leather, paper and other trades. Oils constitute about 40 per cent of output, vitamins 35 per cent, stearates 11 per cent, and cosmetics and other items the remainder.

National Oil's sales reached a new high of \$11,785,673 last year. This was approximately 42 per cent above the previous record of \$8,274,924 set in 1940, and continued the well established growth trend of the last ten years. Earnings gains were, however, probably limited and net per share is not believed to have exceeded the \$3.81 of 1940 by more than a very moderate amount.

Future prospects of National Oil Products are regarded as promising. The company is constantly extending its field by the introduction of new products, and by diversification is, to some extent, lessening the growing threat of competition in vitamins. Currently business is not affected by priorities to any marked degree. Costs are under reasonably good control and the company is believed to have sufficient low priced inventories to insure satisfactory profit margins for some time ahead. The stock, which recently sold at 33, is rather inactive and moves in a comparatively narrow range. The low for the last three years is 26.

Pennsylvania Railroad

In spite of prospective record loadings, 1942 is more likely to be a year of financial strengthening for the Pennsylvania system than one of any marked increase in earnings. Operating revenues of the road in 1941 totaled \$614,041,163, almost equaling the record of 1929, and a gain of 29 per cent over 1940. With the great stimulation given to industrial activity in the service area by the armament program, there is every prospect that new record volumes of traffic will be handled in 1942. Higher taxes, heavy maintenance and increased wages, however, will limit earnings gains.

The Pennsylvania is planning a huge expansion of the maintenance program started in 1941. Late last year construction work was started

on 6,020 new freight cars, 15 electric passenger locomotives and 12 steam locomotive tenders in the company's own shops, \$18,456,000 in equipment trust certificates being sold to defray the costs. In addition contracts were signed for the construction of new barges and lighters to be used in New York Harbor. Taxes, apparently allocated at the normal rate of 31 per cent last year, will be higher, both because of the increase in the normal tax and because the road may have to pay excess profits taxes for the first time. Recent wage increases, estimated as costing around \$25,000,000, will probably not be fully offset by the higher freight rates in force in 1942.

Despite these factors, 1942 should be another favorable year. Larger investment income may, to a modest extent, offset increases in wage, tax and maintenance costs, and while earnings may show no appreciable gains, they should be at satisfactory levels. The usual conservative financial policy will probably prevent any increase in dividends, but this should be compensated for by further strengthening of financial resources. Maturities of \$47,000,000 and \$48,000,000 in 1942 and 1943 respectively do not constitute a serious problem, and should be paid off without difficulty. Open market purchases of nearby maturities are likely to continue.

The Pennsylvania, which operates 10,841 miles of road, is the largest system in the United States from the standpoint of freight traffic. Mileage taps the most heavily industrialized area in the country, including the important cities of New York, Philadelphia, Washington, Chicago and St. Louis, as well as intervening points. Traffic is well diversified, but steel and bituminous coal are the most important sources of tonnage. The company has paid dividends since 1847. The common stock recently sold at 22½, a yield basis of 8.8 per cent.

The Capital Gains Tax

(Continued from page 645)

to sellers missing a sale, brokers miss commissions, the buyer is prevented from buying and improving the property, contractors miss a job, a material man misses the market,

building construction labor and building service labor remain unemployed, the city misses an increased tax on proposed new building, and lastly, fantastically enough, the Government collects no capital gains tax."

The simple fact is that a capital gain is altogether different from regular income—except in the case of professionals who regularly make their livelihoods trading in securities, real estate or other capital assets. The Boland bill has the great merit of being based on common sense and reality. It would segregate both capital gains and losses from regular income, except in the case of professional dealers. Thus, acceptance of a capital gain would not increase an individual's income tax liability, nor could he reduce income tax liability by accepting a capital loss. Certainly that seems fair and sensible both ways.

Next, the Boland bill would end the silly distinction between short term and long term capital gains. The time element has little or nothing to do with the question whether one transaction is a speculation and another is an investment. Indeed, the distinction would be so difficult to define by law that the Government might better make none. A common stock might be—and in most cases is—a speculation whether it is held for two years or ten years. A Government bond is an investment whether it is held only three or six months or a year.

Finally, the bill's proposed flat rate of 10 per cent tax on all capital gains, regardless of the holding period, is plain horse sense. No doubt critics will say that this would be a special favor to rich speculators. But the question of equity is completely academic, even from that misguided point of view. It is still a more or less free country. The Government can't force a citizen to decide to sell his stock or his bond or his real estate—and if the capital gains tax rate is high there will be no sale, no tax, no revenue. Thus, from a revenue standpoint, it makes sense to set a rate low enough to encourage realization of capital gains. And if the Government really wants to foster a continuing private capitalism, it does not make sense to retain a tax which blocks the consummation of sale of capital assets—without even having the merit of producing net revenue.

National Distillers

(Continued from page 655)

statutory prohibition and Congress and the Legislatures were struggling ineffectively to suppress the sweep of bootlegging which developed subsequently into a wave of organized crime and public corruption such as the world never before had seen".

There has been a threat, however, the so-called Sheppard Bill, which would establish prohibitory zones adjacent to military camps or war industries. Both the Army and Navy have voiced vigorous opposition to such legislation. And the Agricultural Adjustment Administration views the liquor industry as a sound business. In 1917 there was a shortage of cereal grains used in the production of alcoholic beverages and the Lever act was enacted which imposed war emergency prohibition. Things are different today. A substantial surplus of cereal grains exist and there is no present ground for pessimism as to the ability of the farmers to produce everything required of them.

We are not in the same position, on that score, as Great Britain, where distillery operations have been curtailed. The British are dependent on large imports of cereal grains and under the necessities of war they have been obliged to divert large quantities of these imported products to human consumption.

The distilling industry has an additional sense of security during war time, due to priorities issued by the Office of Production Management. In the recent order the OPM diverted a material portion of the production of distilleries, so equipped, from the making of whiskey, gin, rum and cordials to the manufacture of industrial alcohol essential for munitions of war. That makes it utterly inconceivable that anyone would, in the circumstances, urge the shutting down of distilleries engaged in a vital war endeavor.

But the "strongest friend at court" the industry has in the Treasury. The Treasury is confronted with raising staggering sums of money to finance the cost of government and the war. So long as such tremendous sums are needed there is little danger that the legal manufacture of alcoholic beverages will be sus-

pended. The distilling industry is one of the major sources of tax revenue for the Federal Government. It is also a heavy tax contributor to State, County and Municipal treasuries. Some idea of the industry's enormous tax yield can be gleaned from the fact that revenues of more than one billion dollars are paid annually to Federal and State governments for taxes on alcoholic beverages.

The National Distillers Productions Corporation is paying its share of these steadily mounting taxes. In 1941 the firm paid for Federal income and capital stock taxes (no excess profits taxes payable), \$3,238,848, as compared with \$2,226,750 in 1940. In its 1941 report the Company showed that Federal excise taxes on beverage spirits were twice increased during the past year and a half from \$2.25 to the present rate of \$4.00 per gallon. However, greatly increased purchasing power, together with heavy stocking by the public in anticipation of these tax increases, more than offset any diminution of sales caused by higher prices to the consumer. Illicit manufacture and sales are, however, already reported to have materially increased and any further tax advance would be certain to aggravate this evil and decrease legitimate sales.

And that brings to the front the question of moonshining. As tax rates increase moonshining rises. So long as it is profitable to break the law by the illicit manufacture and sale of distilled beverages, just so long can we expect to have the moonshiner in our midst.

And for that very reason, and with our memories still green as to the effect upon our national economy and general health, caused by national prohibition and its attendant bootlegger and racketeer, adversaries of legalized alcohol will find a barren ground for their eloquence.

Even in war time their cries will arouse little serious attention. It was demonstrated in the last war and again, on a much smaller scale in the year of national military training just before Pearl Harbor, that what little drunkenness there was among the troops, was not caused by the sale of legitimate liquor, but was largely due to the sale of illicit liquor by bootleggers and moonshiners operating at close

proximity to the camps or training bases.

The distillery industry has enlisted for the duration of the war. It has been recognized as an essential industry—it is highly respectable—and fear that its profits may vanish appears to be quite unfounded, although they may be reduced by high war time taxes.

For Profit and Income

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counted for entirely by higher prices. Physical volume has been running behind a year ago since last October. . . . The long awaited impetus to prefabricated housing may be provided by Government defense housing projects.

Oil's Crucial War Role

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may cause hardship.

New tankers are being built in large numbers. The Sun Oil Company, in their own shipyards, are doing a splendid job in adding to the tanker fleet. Sinkings, however, have been at a far greater rate than new tankers are being built. Millions of barrels of oil must constantly be shipped by tanker to England, the Near East, Far East, Iceland, Ireland, China, Australia and wherever the Axis is being fought. That means the bulk of the world's available tanker fleet is carrying oil for military use. It likewise means that the majority of them are always vulnerable to enemy attack and those losses, in ships, cargo and men, cannot be "shrugged off" or discounted.

Oil for the planes, the tanks and the ships and the shops of America, will be plentiful. New allowables in domestic fields have been granted, and more are possible. New fields are being discovered, new stratas of oil found and cheaper and better means of extracting and refining oil developed. Below ground reserves are adequate for any needs which may arise—at least for the duration of a long war—and then, if the luck of the game holds true—new reserves may be uncovered.

The United Nations control—even with the recent destruction of Malayan, Javanese and East Indian fields—about four-fifths of the world's supply. The statistical position of the industry for the present may be described as "strong, steady" despite smaller supply and shifting demands.

Oil will contribute to the ultimate victory, will aid in sustaining our economic status. Remember—we have the oil.

Second Quarter Business in Transition

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the way toward a definite program which, unless we are laggards indeed, and unworthy to be called Americans, will "jell" by the end of the year.

War spending—which now amounts to about \$2,500,000,000 a month—may be forecast at least \$3,500,000,000 monthly by the end of the second quarter and \$5,000,000,000 monthly by the close of the year. The Reserve Board index of industrial production, now estimated at 175, probably will rise to 180 by July. Naturally gains will be sharpest in industries participating directly or indirectly in the war effort. The next several months will see progressive additional contraction in output of non-essential durable goods, increasing supply difficulties in all types of consumer goods except foods and probably a moderate tapering off from recent highest levels of retail trade.

As I See It

(Continued from page 635)

heart failure to even a larger number of Hitler's generals than those already struck down by sudden death since Hitler took the gamble and retired from the Russian front to prepare for his drive to the oil fields and India.

Now it seems that Japan has ambitions in India as well, and is aiming to reach her goal before Hitler does. Already Nippon has "usurped"

the Dutch East Indies, to which the Nazis believed they had fallen heir as a result of their conquest of Holland. While a German clique is openly applauding these victories, underneath the surface the Nazis must be seething with rage and chagrin.

In the face of the rapid Japanese successes, this fear can readily manifest itself in an emotional explosion to which the German temperament is subject. It would not surprise me to have them turn about face, as in the case of Russia—this time shrieking "Beware the Yellow Peril"—and calling upon the rest of the white race to join with them in an all-out drive to prevent a Japanese conquest with the subsequent uprising race struggle. Nothing is *too* fantastic to the German mentality when cornered.

The fact is that this war, like all other wars before it, is producing conditions not contemplated, thereby causing dangerous mental confusion since men in the countries geared for peace have no realistic basis for recognizing the swift onrushing tide before it reaches the shore. There are no guideposts to show the way. Too long have they relied for their thinking and their action on formulas and *laissez-faire*, instead of common sense.

This is also seen in the demands for increased wages, with time and a half on the part of labor—for higher prices for the farmer—in the attitude of those industrialists who have been blocking conversion to war production. All are symptoms of a lack of understanding of the crisis in which we find ourselves, spurred on by the crafty, subversive elements endeavoring to get control of today's drifting and rudderless mentality. *Here* is where our great danger lies. It is not in our unpreparedness.

Hitler pointed this out as our weakness in "Mein Kampf," where he declared that conquest of the U. S. by arms would be unnecessary;—that he was counting on our mental disorganization to produce revolution which would serve his purpose better, and bring him victory without the cost and effort involved in landing an army here.

It would not be the *first* time that we have refused to believe the intentions of our enemies, although openly and clearly expressed before the whole world. But in view of the

subversive activities taking place in our country today, we are only courting disaster if we close our eyes to this warning. The danger unhappily is all too evident, and immediate steps are urgently needed if we are to nullify and destroy the Fifth column in our midst. Drastic measures will be necessary—but we must take them, for such a program is as much a part of our war effort, as the producing of planes, ships, arms and soldiers.

This is common sense—and politics, hell-and-high water must not stop us if we want to win!

While protecting ourselves at home, there is plenty of room for improvement, too, in the conduct of this war in the field. The President, for whom I have the greatest admiration and appreciation, is overburdened with his many tasks. The supreme command of the United States in war is a big job in itself. It needs the undivided attention of the President, or of a Commander-in-Chief subject to the President, who can make it a full-time job. There has been entirely too much scurrying hither and thither and not arriving anywhere, and the time may be shorter than we know.

At the moment, Japan is our most dangerous enemy. Fresh from conquest, daring and increasingly ambitious, she can, as I pointed out at the beginning of this article, take Germany's place as the leader in the Axis coalition.

Today, as a result of her victories over the Dutch in the East Indies, Japan is seeking new worlds to conquer. She is in a position to concentrate most of her southern Pacific fleet against Australia, now lacking strong naval protection as a result of the disastrous battle of Java. Her assault on India can be made almost entirely a land effort, operating from her bases at Thailand and Indo-China. Moreover, Japan is in a position to carry on both the Australian and Indian offensives simultaneously.

The only way to divert her is for the U. S. to attack the Japanese islands proper, at the same time that we intensively cooperate with Australia to prevent the Japs from overrunning that country. For if Australia falls in the near future, Japan will be free to turn in our direction—to strike us in what may develop to be a three-prong action from the south, the center and the north.

The European scene, too, is heading to a climax. Soon we will know whether the Russian campaign has thrown a monkey-wrench into the Nazi war machine. For in the next few weeks, the German preparations for a drive to the oil fields and the Near East will have been completed. In this case, we can expect a campaign in which the Nazis will exert themselves to the limit of human endurance, for they know that they will have lost the war if they fail this Spring. For by next year, the potentials of the U. S. will have developed into an actual production of vast quantities of munitions, planes and fresh legions of men who will be more than a match for the weary and war-worn Nazi armies. Their supply of reserves is not inexhaustible.

It was to prepare for this final drive that Hitler retreated from Moscow last winter. Despite Russian efforts, his lines still remain anchored at Leningrad, and strong bases have been established in the Ukraine, while the country has been organized with true German efficiency to produce foodstuffs and the necessities to enable the Nazis to undertake this fateful campaign from new bases and supply lines, shortened by some 500 miles as compared with last year.

What effect the new Russian army of a million and a half, now being thrown against the Germans, will have on Hitler's plans remains to be seen. If, however, the British, thoroughly entrenched in their own island, can undertake an offensive on the Continent, obliging Hitler to divert strong forces to the west, Germany's position would be quickly worsened and the picture changed. But in the meantime, nothing has taken place which indicates that Hitler is not going to be in a position to make contact with Japan in India.

I have always been filled with amazement and chagrin to know that Nazi preparations have been going on right under the nose of the Allies, without their taking the appropriate steps to disorganize and destroy installations and troop concentrations. It has riled me to read Allied statements that the terrain was too difficult, the swamps too deep, and the mountains too high—and to find the Axis powers scaling the mountains, fording the streams and pushing through the jungles in blitzkrieg time. General MacAr-

thur has shown us what can be done with daring and initiative, despite seemingly overwhelming handicaps.

And after the Japanese successes, no longer can we be told that "difficult and long lines of communications make it impossible"—when we see what they have done with lines extended from four to five thousand miles away from their home base.

It is the difference between an offensive and a defensive psychology—a state of mind that must be changed if we are to win.

The successive steps in Nazi strategy on the Continent have been evident for some time. Yet England, because of a defensive psychology, her homeland completely fortified, did not take advantage of the opportunity to take the offensive last Fall when Germany was withdrawing troops in an attempt to finish quickly the Russian campaign, and recently when Hitler thinned his Western lines to strengthen his armies for the drive to the Near East.

The only way to stop Germany is to disrupt her plans by putting her on the defensive. Hitler's spring campaign in the Mediterranean must be scotched by engaging him elsewhere before the impetus of the Russian drive has spent itself—for if Hitler and Japan succeed in forming a juncture in India, Russia will be greatly weakened.

At the moment, the Nazis are lining up their forces to strike at the British fleet in the Mediterranean, with the evident assistance of the French fleet and what is left of the Italian fleet. The shifting of these battlecraft to strategic points in the Mediterranean has already taken place. If Gibraltar and Alexandria are reduced, the Turks can be bypassed, for control of the Black Sea would give Hitler a direct route to the Allied oil fields.

A joint offensive by Britain and Russia on the Continent—with the U. S. operating in the Pacific—seems necessary to shift the balance of power from the Axis to the United Nations.

The crucial battle for our liberty—for self-preservation—is at hand. It calls for taking the initiative against our enemies now. We can't wait. War is a gamble at best—even with the most perfect war machine in the world. Let's go!

